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THE SELECT COMMITTEE ON ONTARIO HYDRO AFFAIRS

REPORT ON PROPOSED URANIUM CONTRACTS

The Legislative Assembly of the Province of Ontario

SECOND SESSION: THIRTY-FIRST PARLIAMENT

MARCH, 1978

THE SELECT COMMITTEE ON ONTARIO HYDRO AFFAIRS
REPORT ON PROPOSED URANIUM CONTRACTS
THE LEGISLATIVE ASSEMBLY OF ONTARIO

SECOND SESSION: THIRTY-FIRST PARLIAMENT

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JULIAN REED, M.P.P.

Halton-Burlington

GEORGE SAMIS, M.P.P.

Cornwall

JOHN WILLIAMS, M.P.P.

Oriole

Counsel:

Alan M. Schwartz

Siegal, Fogler,
Barristers and Solicitors

Consultant:

James D. Fisher

The Canada Consulting Group

Clerk of the Committee:

Andrew Richardson

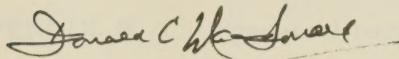
Assistant to the Clerk:

James Stesky

TO: THE HONOURABLE J. E. STOKES,
Speaker of the Legislative Assembly of the Province of Ontario

Sir:

We, the undersigned members of the Committee appointed by the Legislative Assembly of the Province of Ontario on November 24, 1977, to inquire into various matters relating to Ontario Hydro, have the honour to submit the attached Interim Report.



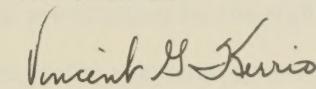
Donald C. MacDonald, M.P.P.
 York South
 Chairman



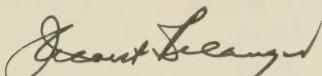
Robert F. Nixon, M.P.P.
 Brant-Oxford-Norfolk
 Vice Chairman



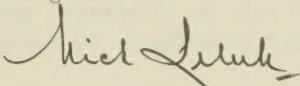
George Ashe, M.P.P.
 Durham West



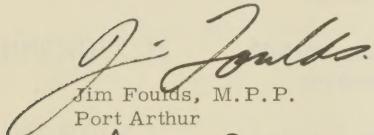
Vince Kerrio, M.P.P.
 Niagara Falls



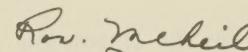
J. Albert Belanger, M.P.P.
 Prescott-Russell



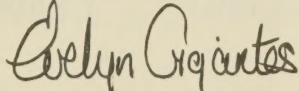
Nick Leluk, M.P.P.
 York West



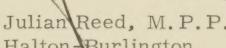
Jim Foulds, M.P.P.
 Port Arthur



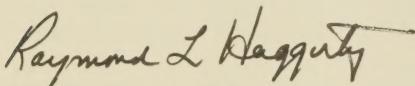
Ron McNeil, M.P.P.
 Elgin



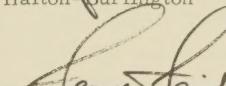
Evelyn Gigantes, M.P.P.
 Carleton East



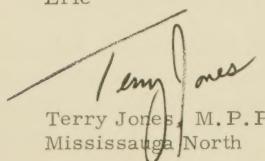
Julian Reed, M.P.P.
 Halton-Burlington



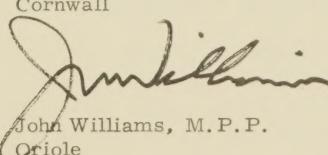
Ray Haggerty, M.P.P.
 Erie



George Samis, M.P.P.
 Cornwall



Terry Jones, M.P.P.
 Mississauga North



John Williams, M.P.P.
 Orioole



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The Select Committee on Ontario Hydro Affairs was appointed on November 24, 1977, with Mr. Donald C. MacDonald, M.P.P. (York South) as Chairman, to study several matters concerning Ontario Hydro. In conformity with its terms of reference which are included as Appendix A, the Committee was planning to begin an investigation of the construction of two heavy water plants at Bruce in January of this year.

On December 19, 1977 the Premier of Ontario informed the Chairman that Ontario Hydro had been negotiating with Rio Algom/Preston Mines Limited and Denison Mines Limited for long term uranium supplies from Elliot Lake. Negotiation with Denison had recently been finalized; negotiations with Rio Algom/Preston were close to completion. When both contracts were signed, and reviews by consultants for the Ministry of Energy completed, the Premier informed the Chairman that the Government proposed to send the documents related to both contracts to the Chairman for consideration by the Select Committee. The Premier wanted the Select Committee "to confirm that entering into the agreements is in the public interest of Ontario". Appendix B is the full text of the letter from the Premier.

Over the past seven weeks the Committee held twenty-nine meetings. It heard from forty different witnesses, including the Premier of Ontario, two Ministers of Energy, a representative of the Government of Canada, officials of Ontario Hydro and many experts from throughout North America, some representing Ontario Hydro, some the Ministry of Energy, with others appearing as independent witnesses to the Committee. Appendix C lists the various witnesses who appeared. In addition, some 60 exhibits were filed, several contained numerous individual documents and reports.

After the Committee had heard from the witnesses the staff presented its conclusions, summarizing and synthesizing the evidence and recommending that the Committee confirm that the contracts are in the public interest. The transcript of the staff presentation and clarifying questions from the Committee is included as Appendix D and the slides used by the staff in the presentation, as Appendix E.

Following the staff presentation, the Committee met to consider possible recommendations. Three motions were tabled and debated—one from each of the three parties. The main arguments supporting the three motions are appended in the order in which they were tabled as appendices F, G and H. None of the motions received the majority support of the Committee and the Premier of Ontario was so informed by the Chairman on February 23. The letter from the Chairman to the Premier is included as Appendix I.

APPENDIX A

On motion by Mr. Welch, seconded by Mr. Kerr,

Ordered, That a Select Committee of the Legislature be appointed:

First, to inquire into the cost of construction of the two heavy-water plants being built by Ontario Hydro at the Bruce Nuclear Power Development, and report to the Legislature on all factors affecting cost, such examination to include but not be limited to:

- (a) The requirements for heavy water, the original estimates of the cost of the plants and the contract signed with the Lummus Company of Canada for the construction of the plants and the conditions placed on the contracts for Canadian content;
- (b) The change in the scope of the work required due to changes in plant design after the original estimates were completed;
- (c) The effect on the total cost of the plants and their construction schedule due to the cancellation of the fourth plant known as plant "C";
- (d) The factors affecting any additional costs incurred by the contractor and Hydro for the supply of major equipment, structural components or other supply items;
- (e) The factors affecting escalation of sub-contracts placed by the contractor or Hydro for work related to the construction of the plants;
- (f) The factor affecting labour costs for construction of the plant including escalation of labour rates, work stoppages, union jurisdictional disputes, and the shortage of any labour skills required for construction;
- (g) The effect of interest rates, and foreign exchange rates on the overall costs of construction;
- (h) The administration of the contract by Hydro and the control methods used to monitor and minimize the cost,

and to prepare and submit a report for the Legislature upon the conclusion of this inquiry.

Second, to review the implementation of the recommendations of the Select Committee of the 30th Parliament which examined Ontario Hydro's proposals for bulk power rate increases for 1976; such review to include consideration of Ontario Hydro's status reports tabled by the Ministry of Energy.

Third, to examine Ontario's nuclear commitment, taking into account the report and recommendations of the Royal Commission on Electrical Power Planning and Ontario's Energy Future, such examination to include but not be limited to:

- (a) Ontario Hydro's system planning strategy for adopting nuclear power and, in particular:
 - § Large v. small generating stations;
 - § Remote stations v. sites close to urban areas;
 - § The ratio of nuclear-fueled generating stations that should be built in comparison to fossil fueled stations, keeping in mind security of supply and cost differentials;
- (b) The economics of nuclear power v. generation from other primary fuels;
- (c) The performance and reliability of nuclear generating stations;
- (d) The responsibility for, and the standards relative to the safety of nuclear generating stations;
- (e) Environmental impact and health considerations related to nuclear power.

And that the Select Committee may prepare and submit interim reports for the Legislature and shall prepare and submit a final report before the end of December, 1978, and that the Select Committee may request such coverage of its proceedings by Hansard and the printing of such papers as the Committee deems appropriate; and the Committee shall have authority to sit during the interval between sessions and have full power and authority to employ counsel and such other personnel as may be deemed advisable and to call for persons, papers and things, and to examine witnesses under oath and the Assembly doth command and compel attendance before the said Select Committee of such persons and the production of such papers and things as the Committee may deem necessary for any of its proceedings and deliberations, for which the Honourable Speaker may issue his warrant or warrants; and the Committee shall be composed of 14 members as follows: Mr. MacDonald (Chairman), Ashe, Foulds, Gigantes, Haggerty, Handleman, Jones, Kerrio, Lane, Leluk, Nixon, Reed (Halton-Burlington), Samis and Williams*.

* Messrs. Handleman and Lane were subsequently replaced by Messrs. Belanger and McNeil



APPENDIX B

The Premier
of Ontario

Parliament Buildings
Queen's Park
Toronto Ontario

December 19, 1977

Dear Donald:

Since 1974, Ontario Hydro has been negotiating with Rio Algom/Preston Mines Limited, and Denison Mines Limited, for longer-term uranium supplies from Elliot Lake, to meet its requirements and its obligations under Federal Government policy guidelines.

Negotiations with Denison have now been finalized and a contract has been signed by Ontario Hydro subject to approval by Order-in-Council. Prior to seeking the approval of the Lieutenant Governor-in-Council, however, the Ministry of Energy undertook a detailed review of the Denison contract, with the assistance of independent consultants, and has concluded that the overall terms and conditions are favourable to Ontario Hydro, and are in the general public interest. Accordingly, the Minister of Energy is prepared to recommend that an Order-in-Council be issued under the authority of Section 24 of The Power Corporation Act authorizing Ontario Hydro to acquire the supply of uranium.

While all the terms of the contract with Rio Algom/Preston have not yet been finalized, it is expected that they will be settled in time for the Ministry's consultants to complete their review of it early in January. When the Ministry review is complete and the second contract signed by Ontario Hydro (subject again to approval by Order-in-Council), the Government proposes to send the documents related to both contracts to you for consideration by the Select Committee which you chair.

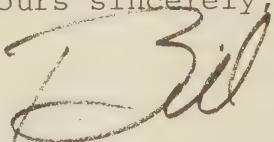
Given the need to supply nuclear fuel to existing and committed reactors in Ontario, and because of the size of these contracts and their implications for the people of Ontario, I should like the Select Committee to consider the findings of the consultants retained by the Ministry of Energy in order to confirm that entering into the above agreements is in the public interest of Ontario. Those findings were based on a consideration of the world uranium outlook, the Federal Government's uranium policy guidelines and a comparison with other uranium supply contracts.

It would be my hope that this review could be undertaken as quickly as possible and be completed before the end of February 1978.

The prime responsibility for providing details of the contracts to the Select Committee would rest with Ontario Hydro.

I can assure the Select Committee of the full and complete cooperation of both Ontario Hydro and the Ministry of Energy.

Yours sincerely,



William G. Davis

Mr. Donald C. MacDonald, M.P.P.,
Chairman,
Select Committee on Hydro Affairs,
Room #212, Legislative Building,
Queen's Park,
Toronto, Ontario.

APPENDIX C

*Witnesses appearing before Committee:**Government of Ontario:*

HON. W. G. DAVIS, Q.C.
 HON. JAMES A. TAYLOR, Q.C.
 HON. REUBEN BAETZ
 MALCOLM ROWAN
 PETER LAMB

Premier
 Then Minister of Energy
 Current Minister of Energy
 Deputy Minister of Energy
 Executive Coordinator
 Ontario Energy Corporation

Government of Canada:

DR. O. J. C. RUNNALS

Senior Advisor
 Uranium & Nuclear Energy Department, Mines & Resources

Ontario Hydro:

ROBERT TAYLOR
 MILAN NASTICH
 JOHN MATHEW

Chairman
 Vice-President, Resources
 Director, Fuels

Witnesses Appearing for the Ministry of Energy—(in order of appearance):

DR. J. E. HOGERTON
 DR. J. GINGOLD
 W. A. MACDONALD, Q.C.
 W. K. McDERMOTT
 JOHN F. UTLEY
 HOWARD LYONS
 E. R. JOHNSON

S. M. Stoller Corporation, New York
 S. M. Stoller Corporation, New York
 MacMillan Binch, Toronto
 MacMillan Binch, Toronto
 Deloitte, Haskins & Sells, Washington
 Deloitte, Haskins & Sells, Toronto
 E. R. Johnson & Associates, Washington

Witnesses Appearing for Ontario Hydro—(in order of appearance):

A. J. MACINTOSH, Q.C.
 E. L. DONEGAN
 G. F. G. POOLEY

Blake Cassels & Graydon, Toronto
 Blake Cassels & Graydon, Toronto
 Blake Cassels & Graydon, Toronto

Denison Mines Limited:

J. KOSTUIK
 E. B. McCONKEY
 N. O. BRIEN
 J. A. MULLIN

President & Chief Operating Officer
 Vice-President, Finance
 Vice-President, Minerals & Marketing
 Fraser & Beatty

Preston Mines Limited:

GEORGE R. ALBINO
 TED CHEESEMAN
 ALAN LOWELL
 RONALD J. ROLLS, Q.C.
 ROBERT L. SHIRRIFF, Q.C.

Vice-President, Director
 Vice-President, Underground Mining Operations
 Vice-President, Minerals & Marketing
 Fasken & Calvin
 Fasken & Calvin

Other Witnesses—(in order of appearance):

GORDON R. BALL, C.F.A.	Databank Systems of Canada Limited
DR. D. J. LACRAW	Professor, University of Western Ontario
DR. PAUL F. DONOVAN	School of Business Administration
LOUIS H. RODDIS, JR.	Donovan, Hamester & Rattien
DR. HANS L. HAMESTER	Washington, D.C.
JAMES V. NEELY	Donovan, Hamester & Rattien
DR. JULIAN A. STEYN	Washington, D.C.
MR. SINCLAIR STEVENS, M.P.	Nuclear Power Consultants, Inc.
MR. MICHAEL ANTHONY	Washington, D.C.
PETER MOSS	International Energy Associates Ltd.
STEPHEN ZORN	Washington, D.C.
	Member of Parliament
	Assistant to Mr. Stevens
	Consolidated Research Inc., New York
	Consolidated Research Inc., New York

APPENDIX D

TRANSCRIPT OF THE STAFF SUMMARY PRESENTATION

FEBRUARY 20, 1978

SELECT COMMITTEE ON ONTARIO HYDRO AFFAIRS

MONDAY, FEBRUARY 20, 1978

AFTERNOON SESSION

THE NAMES OF MEMBERS AND STAFF OF THE SELECT
COMMITTEE, AND WITNESSES SCHEDULED TO APPEAR,
MAY BE FOUND AT THE END OF THIS TRANSCRIPT.

(Chairman: Mr. D. C. MacDonald)

SELECT COMMITTEE ON ONTARIO HYDRO AFFAIRS

The committee resumed at 1:35 P.M.

Mr. Chairman: Staff has a number of exhibits to formally enter and then we will get ready to listen to their scintillating presentation.

Mr. Schwartz: Couldn't have put it better myself.

Mr. Fisher: Scintillating and titillating
scintillating, brilliant, definitive statement.

Mr. Schwartz: Right. During the week all the members received a package of documents that we have marked for convenience sake as exhibits, I just want to quickly read them into the record so that the record is complete. Exhibit 51 was a letter dated February 14, 1978 and addressed to Stephen B. Roman, Chairman and Chief Executive Officer of Denison Mines Limited, from myself regarding the statements which were attributed to Mr. Roman and reported in the press. Exhibit No. 52—I was just told that that batch starts at 47, so I'll have to go backwards, as always. Exhibit 47 was a letter dated February 13, 1978 to myself from Mr. O'Connor of Ontario Hydro and it was in reference to the Ontario Hydro load forecast, the new one, that's Exhibit 47. Exhibit 48 is a letter dated February 13, 1978 to myself from Malcolm Rowan, Deputy Minister of Energy, with copies of certain correspondence, one dated January 23, 1975 from Mr. Bernier to Mr. McKeough and Mr. Timbrell regarding uranium export contracts, and another of February 26, 1975 and another of March 24, 1975—all that formed Exhibit 48. Exhibit 49 was a letter dated February 13th to Donald C. MacDonald, our Chairman, from Mr. MacIntosh of Blake, Cassels with certain information requested by the committee during his testimony of January 25, 1978—and that's Exhibit 49. Exhibit 50 is a letter dated February 14, 1978 to myself from Mr. O'Connor in response to a request by Mr. Reed on February 6, 1978 for information regarding whether or not Ontario Hydro calculates into its cost of electric power the cost of nuclear waste disposal. Exhibit 51 is the one I referred to earlier, the letter from myself to Mr. Roman. Exhibit 52 is a letter dated February 15, 1978 to Mr. O'Connor from myself requesting information regarding the involvement of Premier Davis or his office in negotiating the extension to February 28th. Exhibit 53 is a letter to Mr. Rowan, the Deputy Minister of Energy from myself requesting information regarding the role, if any, played by Premier Davis in establishing the price under the Denison contract, as well as the February 28th date.

Exhibit 55 is a letter dated February 15, 1978 from Mr. Roman of Denison Mines to myself in reply to my letter of February 14th regarding the February 28th deadline and the other comments he made.

Exhibit 56—and we're almost through these—is a letter dated February 15th from Mr. Rowan to myself in reply to my letter of February 15th, requesting information regarding the role of the Premier; and Exhibit 57 was a letter dated February 15th from Mr. O'Connor to myself in reply to my request of Hydro to explain the February 28th date more clearly.

Now, there are two other items I would like to file with the committee just prior to our scintillating, brilliant, definitive comments—that is a letter dated February 17, 1978 from Ontario Hydro signed by Mr. Matthews, the Director of Fuels, who you know well, and addressed to Mr. Fisher; and that relates to the question that was addressed by Dr. Smith this morning—the net cost to Ontario Hydro of the delay from September 16th to February 28th, 1978. That document will be marked as Exhibit 58.

The final document that I would like to table as Exhibit 59 is a document that I received late Friday afternoon. There is a letter from Mr. Rowan to myself saying that the Minister feels that this will be of some interest to us. It is a telex sent by the Hon. Ruben Baetz to the Hon. Alastair Gillespie, along with a response from the Hon. Alastair Gillespie. I should tell you that the letter deals with the question of the possibility of a two-price system from the federal government. I'll read in part from Mr. Baetz' telex because I know we're all interested in this issue. Starting on the first page—and I'm not going to go through it all—"The comments made by some of the members during the course of the select committee review indicated that they may disapprove of the contracts and urge the Ontario government to call on the federal government to take action ensuring that uranium would be made available to Ontario Hydro on better terms than are available under the contracts". He then goes on to quote from the letter of November 4, 1977, from Mr. Gillespie to Mr. (J. A.) Taylor and asks for a response as quickly as possible from the federal government. You'll be able to read that for yourselves.

I will read, though, into the record part of Mr. Gillespie's response: "With regard to uranium, the federal policy of 1974 was aimed at assurance of supply for Canadians. Pricing was addressed only to the extent that the policy stated that 'such export approval will not normally be given if the pricing conditions for foreign customers are more favourable than those offered to domestic purchasers'. While later discussions were held on the possibility of a two-price system for uranium, numerous considerations mitigated against such a proposal. Among these were the strong opposition of the Saskatchewan government to such a plan, the need for a marketing board to implement the system, the minimal impact of nuclear fuel costs on the end customer of electricity, and the obvious benefits of a strong producing industry to the economy of Ontario and Canada as a whole. With this as background and having reviewed the situation once again, I can respond to your specific questions by saying that a two-price system for uranium is not being planned by the federal government. While changing conditions in the industry might require the formation of a marketing board at some future time, the existence of such a board would not necessarily affect the domestic pricing regime. Even if it did, there could be no assurance that it would result in a more favourable price nor security of supply situation than is now possible through the contracts awaiting your approval".

Mr. Ashe: Hey, it's from your fellows buddies in Ottawa.

Mr. Schwartz: That's going to be marked as Exhibit 59. This afternoon our presentation is going to take a little while. I want you to have a bit of patience with us and let us get through it as best we can before you start throwing the arrows and rocks and everything else in our direction.

Mr. Reed: (inaudible)

Mr. Schwartz: I know. It's the only thing that keeps me going. I didn't hear Evelyn (Gigantes) second that.

Mr. Kerrio: (inaudible)

Mr. Schwartz: Okay. Sit down and relax. Here we go. This is the feature of the month.

Mr. Ashe: Is this rated?

Mr. Fisher: Sorry, Let's distribute these. Yes.

Mr. Ashe: I means is the movie X-rated or general audience?

Mr. Schwartz: I think it's general audience, wholesome viewing. While they're distributing it, why don't we mark that as our next document? The Summary and Recommendations of the Staff to the Select Committee on Hydro Affairs Investigating Ontario Hydro's Uranium Contracts with Denison and Preston, dated February 20, 1978, will be marked as Exhibit 60.

Mr. Ashe: Nice round number.

Mr. Fisher: Our counsel did that on purpose because, as you see, one of the things we say is "nearly 60 exhibits" so we wanted there to be an error on the very first one. But anyway, what we wanted to do today was to do two things. One is to try and summarize and pull together a great deal of evidence that's been presented to the committee. We counted 28 committee meetings with 40 witnesses, including this morning's, and there are now exactly 60 exhibits. I think we'll keep the lights on. It's going to go on so long, we might as well.

(Inaudible comments.)

Mr. Fisher: As you know, a lot of those exhibits were multiple document exhibits, so we really have had hundreds of documents presented to us. I didn't think there was any useful way to count how big the contracts were but I did weigh them on our scales and it turns out they're three and three-quarters pounds; and for those people who are concerned with accuracy, the Denison contract is only one pound and three-quarters and the Preston contract is two pounds. So there you go.

Mr. Samis: Wait until Columbo hears this.

Mr. Schwartz: That will probably be one of the most important matters that was discussed (inaudible).

Mr. Fisher: Yes. Don't forget that.

Mr. Chairman: What's the world price per pound?

Mr. Reed: I know now why the pulp and paper industry is so important to the governments of Canada and Ontario.

Mr. Fisher: That's right. What we were going to do--in addition to a summary and synthesis of the evidence, what we wanted to do was to present our conclusions on whether or not it is in the public interest to issue orders in council approving contracts and also to comment on some other possible recommendations that the committee might want to make that would go along with anything you did there. And just so that nobody is in suspense, we will give you the punch line up front, which is that our conclusion overall is that orders in council approving the contract are in the best public interest. And we have four broad reasons for it which we are going to elaborate in the remainder of the presentation today. They build up as we go one to four. The first one says we are really talking to the question of, does it make sense for Ontario Hydro to tie up substantial quantities of Elliot Lake uranium for Ontario's needs? Whether they tie it up by contract or they tie it up by buying the mine or they tie it up by some regulation, does it make sense to take that step? We think it does. The second thing we do is we take a look at the contracts themselves, given the current state of leverage between buyer and seller in the situation, given the current state of expectations about what's going on in the world and the current state of influence that various levels of government might have. It's our conclusion that, given the current situation without any further changes, that the contracts are a reasonable balance of interests. Some people gave up one thing and some people gave up another and there is a reasonable balance of interest. The third area we look at is we consider some of the possible steps that government at one level or another might take to change the balance to ensure that the public receive a different share, presumably a better share, of the benefits of Ontario having substantial quantities of proven uranium. We look at, I think, the three main approaches that have been suggested by the committee right from the beginning, and our conclusion on it is that each of those approaches has its merits, which we will discuss, and each of them leads to possible recommendations that the committee might make but that in each case, in each of the three possibilities, it makes more sense to approve the contracts to tie up the quantities and tie up the suppliers now and take whatever actions you are going to take later than it does to suggest you can do it in the other order.

Finally, we are going to deal with the question of February 28 and what does February 28 mean. What powers does Denison really have in the situation and what is a reasonable guess about what they may or may not do? It is going to be our conclusion in that area that you are taking a very big risk if we let February 28 go by without a decision one way or another.

Okay, so we're going to deal with each of these in turn, and you will be surprised to know that we are going to start with the first. On the question of the reserves themselves, we are going to look at three different aspects of tying up the Elliot Lake reserves. The first thing we want to talk about was quantities. A number of questions have been raised about 156 million pounds, 198 million pounds, 143 million pounds; there have been a lot of different numbers about quantities and whether these contracts are reasonable in relation to quantities that Hydro might need. We will talk about these and we will also in this case talk about some of the flexibility provisions of the contract and how they would work.

The second thing we are going to talk about is the forecasts of the future uranium markets and the range of views that have been presented to the committee on that, and we will present you, for what it is worth, with our own judgement of what you might consider after the range of views. And finally, we will look at the specific benefits to Ontario of purchasing in Ontario and in Elliot Lake. So, if we start with the first one, it's the question of quantities, and the 156 million pound estimate.

I think there are a couple of things that we should talk about immediately on that. One is where does the estimate come from? We had questions about 30 years; we had questions about capacity factors; we had questions about the possibility of thorium replacing uranium. I think the relevant exhibits here are exhibits 45 and 46. Exhibit 45 deals with the thorium question and comes to the conclusion that it is unlikely that thorium will replace uranium, at least before the end of the century, so that we're looking at uranium cycles between now and then. I think the implication of the latter is that then it would just begin to start and would gradually come in.

The second question was the question about capacity factors and what kind of life we were assuming in these. I think that what we found was that the 156 million pounds was based on a 30-year life of each station so that the station, in fact, is assumed to stop at the end of 30 years. We will deal with that and whether that's reasonable or not.

The next thing is that there is not one capacity factor assumption. In fact, there's a range of capacity factor assumptions that go from 72 per cent capacity factor in the case of Douglas Point to 81 per cent in the case of the two Pickering Stations. The bulk of it, well, Bruce A is 73 per cent and Bruce B is 77 and Darlington is 77.

The last thing we did, in terms of verifying estimates, was to query whether the consumption rates in the reactors, the consumption rates that were being assumed were within the industry norms for what a Candu reactor should consume. We checked those numbers out and it turned out that they are right on where the industry assumes they were and where, in fact, the federal government, in its uranium guidelines, uses the same assumption for consumption of uranium.

With all that, one of the benefits that you have of us having the weekend is that I spent Sunday doing these really beautiful charts that you see here. I present a bunch of charts that show the quantities in relation to some of these things.

The first one here shows, and it goes off the chart but it starts where we have millions of pounds over there. It shows how the quantities, under the contracts, accumulate and then diminish over the life of the contract. This line at the bottom which is dotted through here is the Denison contract which ends with a sort of makeup quantity in the year 2011. Then, on top of that, we have the Preston amount of two million pounds which starts in 1985 and carries on through the whole period here and then is assumed to go at least to 2020 and, as I say, who knows, it may go beyond the ore reserves that have not been fully delimited, or delineated, I guess is the word they use. So that is the quantity. That's the 198 million pounds.

The 156 million pounds number comes from this, if I can get it to line up. This black line shows the consumption of the plants up to Darlington assuming a 30-year life. You can see what happens here is that about 1994 it starts to go down because the Douglas Point reactor has reached its 30-year. Then it goes out here to the year 2003 when Pickering A drops off, and then it goes out to 2009 when Bruce A and so on, all the way out, until at the end, in the year 2017, if we have built no more reactors than those at the Darlington and if, in fact, they have a 30-year life, then we have no more need for uranium. You can see in here where the imbalance in quantities occurs, that we have the shortfall through the 1980s. I think we know that we have some contracts that essentially cover some of this part, but then we have the shortfall through the 1980s into about 1994. Then we have this large surplus through here which grows as reactors start to end their useful life; and then we have a small shortfall here, and then we have a surplus at the end again.

Mr. Nixon: For part of that time the deliveries would be 100 per cent more than required.

Mr. Fisher: Not 100 per cent. The highest number is 5,007,000 pounds and the highest delivery gets to eight million pounds. This number here is 4,942,000 pounds and that is eight, so the difference is actually three million pounds.

Mr. Nixon: But in 2010?

Mr. Fisher: Oh, I see, when we get out to here. The worst point would be here at 2010.

In 2010 the quantity—that's right—it gets worse than that. In the year 2009 we need 2,101,000 pounds, and the contract at that time is still for eight million pounds. So it is between three and eight. It is five million excess.

Ms. Gigantes: Under the Denison contracts the significant deliveries are starting in 1985?

Mr. Fisher: Yes.

Ms. Gigantes: In 1985 the gap you are seeing there in use is attributable to Darlington?

Mr. Fisher: Yes it is two things really—Bruce B has reached maturity almost at that point and Darlington is starting to use substantial quantities. Yes.

One of the things that has been considered is—what happens if Darlington is delayed? And I think the essence of that is that we move—it depends on how far and how long and so on. If Darlington is delayed three years, then what we have done is we have just taken this line and moved it out three years and it will not climb as rapidly in this point—it will reach its peak sometime in here—and then it will start to come down. It will go out to the year 2020. It will still be 156 million pounds—that doesn't change; the quantities are the same for a three-year delay within the time we are looking at.

Another possibility and one that was raised by the Hydro people is to suggest that 30 years may not be the most realistic life expectation for reactors; that that is an accounting life that is used for depreciation purposes; and that they expect that the reactors will in fact go on and be useful beyond 30 years.

What I did here, I did a 40-year life just as another number; so you could see that. What that does is shows, as the black line shows; I have just taken everything and stretched it out another ten years. If you add up that area under the curve you are now up to 204 million pounds; so you are in balance. But you will notice that while you are in balance in terms of totals you are not in balance in terms of deliveries because you have the surpluses in here and then you have a big shortfall out at the end.

So I think this really leads to the last one which is that in essence, I guess it is our view, the contracts are not entered into initially on the assumption that we are not going to build a plant beyond Darlington. That may happen, and there are flexibility provisions on the contracts to reduce the quantities if in fact that happens. But when you look at the contracts, I think that the realistic expectation that they have, anyway, when they enter the contracts is that there is a good chance that they will need more uranium than that. So what we have done here is just taken LRF 48 and made assumptions—I repeated the same kind of assumptions that they make about how fast reactors take to start up, and reach their equilibrium state and so on and I've just plotted out what it would all be if LRF 48 comes in. Now, the only reason the line stops climbing there is because I reached the bottom of my great big piece of paper; at that point we had all the reactors that are planned according to LRF 48 to come on stream by the year 2000, and that's what happens with it; what happens from there, of course, depends upon on where we go after the year 2000. Do we carry on having nuclear reactors or do we have thorium reactors, or do we have no reactors, or do we all go into conservation. If we don't need any more reactors after 2000 that line will gradually come down. I think you should note that the amount of uranium that's being considered if you go up on this line is quite large. I added it up to over 450,000,000 lbs. It reaches a peak in the year 2000, it goes beyond 2000 to 16,300,000 lbs. for that year. Very large quantities, if you were to go there. You can plot a million lines; you can conceive of a delay line where this line instead of being up there would come down like this or whatever. You know, your imagination is your only limit on the number of possibilities you might want to postulate in there and where it may go. It may end up right there, or it may end up right there. I think all we can see is that those are the limits. And the point about the quantities is essentially that they are somewhere in the middle of the two—well they're not in the middle—they're closer to the low end of the two possible extremes.

Ms. Gigantes: Could I ask a question here, I don't know if it is the right place and if it isn't just tell me to wait on it. How does LRF 48 now relate to the load forecast report No. 780213?

Mr. Fisher: I believe the information that we have is that LRF 48A is in the process of being rethought in conjunction with the load forecast. The information I think we also have is that to date as the load forecast has come down—and if you look at that load forecast, you'll find that for several

years it's been coming down, coming down, and coming down—is that to date it has been Hydro's planning assumption that the decline in the load forecast impacts essentially the fossil plants which they use for the peaks because they still have a need for base load generation within that declining load forecast. Now, we understand that the generation plan is being rethought now, given the new load forecast, and all we can do is again say use your imagination to see what it may do.

Ms. Gigantes: Can you remind us of the date on which LRF 48A was concocted?

Mr. Fisher: Gosh, it's so long ago. It's several years old.

Ms. Gigantes: Would it be 1970?

Mr. Fisher: No it's after that.

Mr. Schwartz: Well past that.

Mr. Chairman: 1975.

Ms. Gigantes: 1975.

Mr. Nixon: Well, it was certainly based on a 7% growth factor, was it not?

Mr. Fisher: It was at the time but then the 7% growth factor has eroded for the last few years and each year—it's our understanding—that when they looked at the load forecast and their system expansion plan—it hasn't changed their assumption of building a base-load nuclear generation. I think with this particular decline which is so dramatic, I guess, that they are now rethinking the pace at which they will be adding nuclear plants. I think if you ever looked at LRF 48 there are nuclear plants being added at a prodigious rate. There's just an awful lot of them, up to four more after Darlington by the year 2000. No more than that, eight more after Darlington by the year 2000. So there's a lot of room for a slow down and to still end up with enormous quantities of uranium. That's right. So our conclusion on that is that Ontario Hydro will need sizeable quantities of uranium in the next 42 years. That is a reasonable thing to assess, although there is nobody that can say exactly how much. Nobody knows exactly how many will do.

One of the things that we did have to look at was the question or the possibility that there will, in fact, be no more reactors after Darlington and they will have only a 30-year life. If that is the case, then we have to get down to what the basic need is. If the calculations which we did way back near the beginning are still true—that if we took the basic need and we subtracted these current contracts for 13 million that their new need is only 14.3 million which is an excess of 55 million, and if we assume that they contract for 10 more million pounds in the 1980s, then the maximum excess gets to 65 million pounds. If that's what happens they will have to curtail. So what we have done is looked at the curtailment provisions of the contract. What would they do—and you'll see it as a blank here which I'll get to in a second.

Hydro makes the case, and it seems not an unreasonable case, that the most reasonable thing that Hydro would do if it turned out that there was excess uranium under the contract would be to resell the surplus. Most of the people who have estimated what the world markets are, have suggested that, at the worst, that the world price will be above our base price or this basic cost. Even if it's only slightly below it would seem the most reasonable thing to do, given that there are costs of curtailing, would be to take the surplus and sell it for as much as you can get. But if it turns out that the surpluses are not saleable for any one of lots of reasons, then it would be necessary to exercise some of the flexibility provisions in the contracts in order to reduce the commitment.

The Preston contract has got two important curtailment possibilities. One is it can be curtailed for up to 15 per cent for three years. But if we're assuming that nothing goes on after Darlington it's more likely that they would take the second alternative which would be to cancel the contract which they can do on five years' notice.

The cost in that case would amount to, essentially, the capital that has not been repaid up until that time.

The second area of flexibility is in the Denison contract and the Denison contract has more downward flexibility than the Preston one has, in the sense that there can be curtailments of up to 5 per cent, five times, of which no more than two can be temporary and no more than five altogether can be permanent. Those are not additive. You can either take all five as permanent or you can go two and three but you can never have more than five. But the end of that is that you can curtail by 25 per cent.

The calculation which we left out, and it turns out to be the best one that we could get, we have tried to get different assumptions and different calculations. There are a million permutations and combinations of how you can curtail, and under what circumstances, and would you, as we're suggesting in here, if you knew that there was going to be surpluses, would you borrow from the federal stockpile, keep the contracts going and repay, or would you do something else? It's hard to say. In the end, there was a calculation which was in Exhibit 4, item 5, sorry, Exhibit 44, item 5, in which they went through a set of calculations and ended up with an added cost of \$1.33 per pound.

Now the reason that we were trying to find a better way of doing it is that what is assumed in that curtailment is that we would curtail the quantities right to the line of the Darlington need. What happens when you do that is that it curtails it more in total than you would need. It curtails it for the period when we have surpluses but it also curtails it in the period at the tail when we would have wanted some. In the end, if you looked at that, they ended up only taking 122 million pounds. So that the curtailment cost, in a sense, is maybe larger than it might have been if you could have figured out another possible permutation or combination of it.

Mr. Ashe: What you are really saying then is that in fact that's the worst position? Other than cancelling right after the money has been advanced, of course.

Mr. Fisher: I don't know because the problem is saying what would you do if you had taken uranium deliveries earlier. If you could think of some good way to take deliveries earlier, keep taking your deliveries, and somehow do something so you get credit at the end then I think you could say that number would be reduced. If you took the deliveries earlier and you had to keep them in a pile somewhere and pay your interest and storage then it's probable that the cost would be greater (because the storage cost would be higher). So its somewhere in there, and in the end—what can I say?

Ms. Gigantes: Does this stuff ferment?

Mr. Fisher: Does it ferment? It might make a good wine. You could age it for 20 years. The point is that there is flexibility in the contracts to reduce the surplus. There is a cost to that flexibility but the flexibility does remain, and if for some reason that there are no more reactors after Darlington and they only go for 30 years and all through we have considered the worst case assumptions, then the contracts can be curtailed. I believe there is also, if you take a one step worse case, which is that the Ontario government or some government doesn't allow nuclear reactors to operate at all, then I believe the contract can be just cancelled outright. Is that not right? (That's right)

So under all the worst, worst, worst, and so on, there are ways to get out, although with cost. I guess out of all that background we end up saying that the quantities are reasonable or we can substantiate the 156 million pounds; that it seems to be based on reasonable estimates; it is quite likely that they could use more; if they end up down here, there are ways to reduce the contracts.

Ms. Gigantes: One other question on the \$1.33 per pound. Is that just on the Denison contract or is that for both?

Mr. Fisher: No it's on both. And the way the calculation works out, there would be \$43 million of advances, that would not have been repaid to Preston and would have had to be written off. And there would be an added cost of \$120 million to Denison. So that the total insurance cost, if you will, is \$163 million over 122 million pounds, which is your \$1.33 a pound. That's the added cost.

The next set of questions related to whether it made sense to enter into these long-term contracts or even any long-term control of the supply whether you did it by buying or by contracting or anything, you are tying it up for a long period of time and that led to the question of what is going to happen to the world uranium markets. I think in this case there are three different groups of forecasts. I think going from greatest scarcity to least scarcity, at the greatest scarcity end was Dr. Robertson who made several reports available to us that he had given to Hydro. It was our view that he presented the scenario of greatest scarcity. Now, I hope we aren't putting words into his mouth but our assessment of what he said was that the price could go up into very large numbers of which \$100 is a possibility if in fact there is a great scarcity of uranium. The implication of that which came out very clearly in his reports was that it was of utmost importance for Hydro to secure supply. I think there was a second group of forecasts, which was essentially that supply is going to be tight but it's going to be adequate; the

prices will essentially be controlled by the governments of the producer-nations, or maybe in this country the producer-provinces. There were a number of people who expressed different points of view around that: Hogerton from Stoller Corporation; Mr. (E. R.) Johnson who was working with Deloitte, Haskins and Sells of the ministry consultants; then there was Dr. Donovan and Mr. Roddis, who were with Donovan, Hamester and Rattien; and Mr. Neely who had come with them as their uranium supply expert; and then Mr. Steyn—who all had that general view. It will fluctuate up and down, but in current dollars we're looking at \$40 to \$45 per pound. It may go down a little; it may go up a little; but over time that's the band in which it will operate. It was their conclusion that securing supply below a world-price number, which is going to be in that range, was a prudent thing to do.

I have many, many quotes. I've got all of the statements of all these people. Maybe, just in terms if there are some extra ones that would be worth pointing out of people who weren't there, without going into those people, there's the "Uranium Supply to 2000—Canada and the World" document of EM&R, in which their conclusion is that "Supply forecast world of production levels beyond the early 1980's—significant reserve additions will be required, largely through new discoveries", and "the ability of Canada to remain an exporter, indeed its ability to meet long-term domestic needs, will depend on a massive and successful exploration effort over the next 10 to 20 years".

In the whole area of supply and demand, I think you'll recall that people gave evidence on both sides of the question, on the supply question, the rate of discovery, the rate of new production and what rate one can reasonably assume it will be brought in; and on the other hand, they looked at the demand projections and said, "What's happening to nuclear power growth around the world"? So that throughout all of the various experts, when they were balancing those off, I think were balancing off both of those considerations. If we looked at the OECD report, and especially on the question of where are the resources going to come from, and the response to the question that was raised by some people about enormous quantities of uranium which may be discovered in various countries around the world or even in this country, I think all the experts who look at it do assume that there will be a large amount of production coming from places which now do not produce uranium, and they all take into account the enormous quantities of uranium, apparently, that are available in Australia.

The other side of it is this question on the demand side, is what is going to happen to nuclear power. I think all the people have considered this and it's very clear that the long-term forecast of demand for uranium for the nuclear power industry has been drastically reduced. The OECD, for example, has reduced its expectation of nuclear generation in the year 2000 from the area of 2,000 to 2,480 gigawatts down to 1,000 to 1,890 gigawatts. I think you'll remember that when Mr. Steyn was here, he reduced his estimate even further.

I've got a million things and you probably don't want to hear them all but I think there was a great deal of evidence in this area from the OECD, from the experts that we brought in, from the Department of Energy, Mines and Resources and the feeling that what is going to happen in the world is

that there is going to be a much slower growth than had originally been expected for nuclear power; that even with that slower growth that substantial finds of uranium would be required and substantial amounts of uranium mining must be brought into production. So there was a great preponderance of evidence in that middle area.

There was, however, at least I think there were two forecasters who gave us a different forecast. Mr. Ball was one and Mr. Moss was the other. They assumed or forecast that there will be plenty of uranium available at lower cost than Elliot Lake and that, eventually, the price control which governments have exerted will be broken. I think it was their expectation that the price could drop possibly even as low as \$20 in terms of current dollars and it was their conclusion that there is no need to have such long-term commitments under those assumptions. I think because that forecast has such an impact on these contracts, although maybe not as much as they originally thought when you take into account the flexibility provisions, we have looked at that forecast in some more detail.

In Mr. Ball's forecast, there were two elements, two important elements that he took into account.

The first one was that nuclear station development has fallen considerably. The second thing he said was that consumption rates were overstated. Everything is based on requirements and it's not based on consumption and that he had added up the number of tons of uranium metal that had been delivered to reactors, and that the requirements far overstated the consumption numbers.

We had two comments on that forecast. One was that the assumptions about nuclear station development falling has been taken into account by most of that middle group, what we're calling the moderate group; most of the middle group have taken into account that fact.

The second thing was that there was a fairly substantial error of quantities in the testimony that we got, which came about because in counting up the number of tons of uranium metal in the forecast that he gave us, he had not taken into account the amount of uranium that has to go to an enriching plant in order to have so many tons of metal come out the end, and that, in fact, he should multiply his numbers by about a factor of five in order to go from the number of tons of metal that go to a plant using enriched to the number of tons of uranium that has to come out of the ground.

Mr. Ashe: A slight error.

Mr. Fisher: The other different view that we got was from Peter Moss, who was with CRI, which was part of Commodities Research Unit, and he really had two assumptions. One assumption was that uranium is a young mineral in terms of exploration and in terms of exploitation and that more will be found. He also pointed to the fact that the new finds that have come on in the last few years have been cheaper than the deep Elliot Lake reserves.

I think there were a couple of things about that that were important. One is, in terms of finds, I think it was clear that everyone we talked to was aware of all those quantities and aware of the rate of finding that will be

necessary. I think that wasn't really a new thing. What was more important was the cost factor that he brought into account.

One of the things that he did concede was that there will probably be no major price break until the 1990s because of the problem of production bottlenecks. If you recall, he really questioned the length of the contracts rather than any other part of the terms.

Ms. Gigantes: I don't like to keep interrupting but I'm curious about page 7. I think it's important for us to get some perspective on what we're doing here because I don't see any good reason why you should set up Robertson as an extreme. I don't see any difference in the implications of what he was saying from the implications of what the others were saying. You know what that amounts to it seems to me is setting up one group in the middle by somehow sticking Robertson at one end.

Mr. Fisher: Well yeah; I think it was because in our view he had a far more conservative, if you will, view of the potential availability of uranium over the next 30 or more years than any one else did. He was the only one that presented us several times, and presented us with documents that went back to 1974, that continually showed the cross-over and a gap. I think every one else assumed that with the price where it was there was sufficient incentive for exploration and that we were going to maintain a balance. I think you see it in Mr. Hogerton, he starts his whole thing on supply and demand by saying "I looked at Dr. Robertson's and his is more pessimistic than mine".

Ms. Gigantes: So it's price really that makes you touch him (inaudible).

Mr. Fisher: The unit price.

Mr. Schwartz: Ms. Gigantes, look at the OECD document. They talk about two scenarios; one is closer to Dr. Robertson which is supply will be very tight very early; the other is closer to Mr. Hogerton, which says it will be tight but we'll make it. What they conclude from this is that there are these two schools; and make the same conclusion that we have, that the bottom line for the two schools is what will happen to price.

Ms. Gigantes: Good, thank you.

Mr. Fisher: Anyway, I think what Peter Moss told us was that he thought that price would continue to be tight, supply would be tight through the 80's and if a break came it would come in the 90's and eventually the key there would be breaking the government control of export prices that exist around the world. If you will recall his conclusion was that over a long period of time one cannot maintain a price level which is substantially above cost; and that there was some assumption that at some point that would break, depending on your assumptions about the cost of various levels of production.

I think, then, that we have two things that we would like to say about that third forecast, because it is a possibility.

First of all, if the forecast is right and the price in fact does drop substantially below the cost of production out of Elliot Lake, then I think the first thing to bear in mind is that there are provisions in both contracts to get out if the world price is substantially lower for a sustained period of time. If you recall in the Denison, it's if the world price is below the base price for five years, that you can get out on two years' notice. Now it's a long time, but if there is a break in the 90's or in the late 80's, around 1990, what it does is that it does enable Hydro to get out either before, or just as, the really sizeable quantities are starting to come from Denison Mines. Of course in the case of Preston again, you can get out on five years' notice.

I guess the second conclusion is—really you can go one way or the other on this—if in fact it's true that the forecast is right, then of course the projected profit is going to be substantially lower, it would be down to \$5.00 a pound. Whatever your view on that is, that's where it would be. The third conclusion is—or the third thing we would like to say about that possibility of that forecast being right is if it is fact true that it may be that unless the world price is substantially below the base price, by a very large amount—that it may well be in Ontario's interest to maintain a community at Elliot Lake anyway, and that you would still, in the public interest, let's say for some number of dollars per pound of uranium given its total impact on electric power prices, that is still makes sense to maintain a viable community at Elliot Lake, whatever. So that's on the assumption that the possibility that that forecast is right. On the other hand if the forecast is wrong, and I think the assumption of all sort of the expert evidence that we have is that is not the best forecast, but if it was true, and we followed that forecast by contracting up to, say, 1990 or so, then there would be substantial risks. One would be that there could well be no protection from a world price contract, especially if the purchases had to be made outside Ontario. If those other forecasts are right, then there will be an even greater demand for uranium than we see today. And we don't see where you would get price protection. And on the supply protection side, the only place you would get supply protection is by forcing the federal government to interrupt a long-term supply relationship which some producer has with one of our major trading partners. And it is not to say that that is impossible, but I think it is a fairly serious implication, serious kind of consequence to envisage. I think it is clear that if that were the case, it is very unlikely that Hydro would end up getting a price concession if that is the way they ended up getting their supply.

Finally in this area is just to consider the question of whether you should be buying in Ontario in any event and looking at some of the benefits of that.

There was an assumption that we shouldn't have started by looking at Ontario, that we should have started by getting bids all around the world and going out and seeing where we could get it. Hydro's point of view had been that it made more sense for them to tie up their initial quantities from proven reserves in Ontario. And I think there are some reasons for that.

The first is that the potential disruptions to supply are minimized if it is purchased within one's own jurisdiction. I think if you look at the situation in uranium where Canada has interrupted supply to Japan and Europe for international negotiating reasons having to do with embargoes where Australia has interrupted supply with people who has contracts because the Labour

government decided they didn't want to exploit uranium; I think you can see that there are real risks in crossing jurisdictions to get uranium. It is a sensitive material. So I think there are fewer risks—political risks anyway—of supply disruption if you are contracting in Ontario.

I think the second and third points are in fact theoretically true whether Ontario buys uranium or whoever. We have been told we are looking at 2,500 new mining jobs, plus construction jobs at the beginning plus the multipliers in northern Ontario; and we have a calculation from Ontario Hydro of a potential tax stream that has a present value to Ontario of almost \$650 million. As I say that that is theoretically true with export sales as it is with sales to Ontario Hydro, I think the difference would have to do with the long-term stability of those jobs and the potential tax stream as opposed to the shorter term export contracts, which are always liable to disruption.

I think the fourth point which is important to us is that from what we can see, it may be that the only place in which substantial quantities of uranium can be bought at a discount from the world price—whatever you think of the world price—is in Ontario. The other place in Canada where there are quantities of uranium is Saskatchewan, and under their royalty scheme it is envisaged that the minister will deem a certain value on those contracts to be the fair market value and that is the value on which all royalties will be paid. So it seems unlikely, at this moment, that you would get quantities, from Saskatchewan anyway, at less than world price.

We know from what Mr. Zorn said that Australia has announced that all exports will be at "world price" whatever that is. So in terms of getting a discount, it is hard to envisage where else one would go.

Finally, I think the last important point in terms of making some sense to be buying in Ontario, is that although Ontario as we have learned has no control over uranium, because it is in the federal jurisdiction, one of the things these two contracts do is give us in fact de facto control of two mines—the Stanleigh Mine and the Denison Mine. Neither of them can produce any more than is now scheduled for production, and it is all now tied up—at least until year 2011 in the case of Denison, and forever in the case of Preston.

Ms. Gigantes: Why include that clause that permits other contracts then?
(Not clearly audible)

Mr. Fisher: From the Denison production? There are two pieces of evidence on it—well maybe it all comes from one place. There is further uranium in the Denison mine. There is, in fact, whatever it is about 25 per cent of it is left in the mine after the year 2011. On the other side, I think, is the statement of Dr. Robertson which is on page 9 of his assessment of the Denison mine, where it is his opinion that no more uranium can be produced or that uranium cannot be produced at a higher rate from those mines than is envisaged under the contract. He doesn't think any more can be done, and it's on that that we are saying that's all there will be. But I think it's also true that as the contracts go on there will be potential deliveries from that uranium that's still left in the ground after the year 2010.

Ms. Gigantes: No just after the year 2010. I means, there are provisions in the Denison contract that say there can be other contracts five years from now.

Mr. Fisher: That's right, Yes, they do; they do say that. But it was Dr. Robertson's opinion, if I can find where it says, the narrow ore limits the production rate because more men, equipment and development are required per ton of ore extracted. "When each of these three areas"—and he is talking about how they have to take each of three areas in order to get their production rate—"when each of these three areas has reached the indicated production rate, and this should be so by 1986, it is the opinion of R and A that any further increase in mine output is unlikely". It is possible but it's unlikely. To conclude this whole long section, what we've concluded is that it is in the public interest to tie up Elliot Lake's uranium reserves for Ontario Hydro for three reasons: one is that the quantities that are indicated do appear reasonable but are well below the maximum, they are above the minimum, but they do so with curtailment possibilities and with the relatively low cost of insurance on those curtailment possibilities.

The second reason is that under most of the forecasts that we were given, I think in all except two people's forecasts, the cost of the Elliot Lake reserve will be below the world price. It is our view that there is a substantial risk that one would take if you followed what in the end is the maverick view on where the world uranium is likely to go. The third point that I think, in our view anyway, ties up that conclusion is that unless there's an enormous drop in world price and a complete change in availability around the world, Ontario's as a province, interests are probably best served by developing its own production and by providing the jobs and taxes in Ontario.

The next thing we wanted to do was to look at the contracts themselves. I think it's certainly true that when we looked at the contracts that the first thing that we saw was that there were a number of very unusual and somewhat difficult to understand features, of which two of them we have put up front; one was the question about the substantial interest free capital advances and the second was this very strange contract term that has to do with negotiated price and I'm sure all the lawyers will be upset at me for using words like "vague definitions". In fact, there's 10 pages that define negotiated price in the Denison contract and seven pages in the Preston one plus numerous letters from ministers to lawyers and lawyers to ministers and lawyers to lawyers; so that it is well defined, there are a lot of pages on what that thing called world price is or a negotiated price. We are going to get back into the whole question of negotiated price in a minute, but it seemed to us that what we found is that some of those terms that did seem unusual and difficult when we looked at them, and we may still think they're kind of unusual and difficult, are in fact not that unusual under the circumstances.

In terms of the interest free capital advances we found that it has become a common practice in the uranium industry, and I think that's built in three steps. One was Mr. MacDonald from McMillan Binch who indicated that, in his opinion, a producer who was putting up that kind of capital to develop a mine, if he had to finance it himself, he would have required the buyer to have guaranteed deliveries, to the extent that he might as well almost have put the money up himself, that it would be very unusual for anyone to

finance—put up \$150 million on a contract that didn't contain a tremendous number of guarantees about that capital.

So I think that whether you guarantee it or you advance it yourself—it appeared that Hydro was going to have to be on the hook in some way for the amount of capital.

I think the second question, though, was whether they'd guarantee it or be on the hook themselves for the money; and I think Donovan and Hogerton told us that that was becoming common in the industry. That was the way it was commonly done. I think in Exhibit 55 which you just got—the letter from Denison—Mr. Roman indicated that the offers that he has all contemplate putting up capital advances, which I think just corroborates essentially what we've been told—that that's now the common practice.

Mr. Kerrio: Is there any binding guarantee that they'll deliver?

Mr. Schwartz: Can you give me a few minutes while I figure out the answer to that question?

Mr. Kerrio: Sure.

Ms. Gigantes: When you say "common practice" you mean since 1975?

Mr. Fisher: Yes, recent common practice.

The other thing, I think, we had heard was that a negotiated price that is meant to equate to world price in some form or another, a term that is like that—is becoming common in the uranium industry, although not always with the discount; and, in fact, a term something like that, in which the Saskatchewan royalty scheme envisages words that are almost the same, is being insisted upon by the government in many producing jurisdictions; and that includes Canada, with the Atomic Energy Control Board; it includes Australia, and it includes Saskatchewan with their royalty scheme.

However, while I think we heard something about those being not that unusual, I think we also have to accept, I think, the fact that as the contracts are the result of negotiations, in the end not all the terms and conditions come out to be exactly as we might have wanted. I think there's no question that it would have been better if one had been able to eliminate any reference to world price and relate the price to cost plus a reasonable profit. That was the essence of Hydro's offer and there's a letter from Mr. Gordon to the chief executive officers of both of the producers saying, "That's what we consider to be a good offer".

I'm going to come back a little bit to this cost thing because there has been some suggestion that there's some flim-flam game on the costs, that the costs are not what we've been told they are. And I'll come back to that.

I think it's also clear that it would have been better to have the interest paid by the suppliers included in the base price, and if one were to do that, it reduces the differential between the base price and the negotiated price so that in the end the producer essentially, in the case of Denison, would be

paying half the interest because that differential would be reduced. So it would have been better to have the interest in the base if one could have got it in the base. They didn't get it in the base.

It proved impossible, in our view, to find a fully satisfactory definition of this thing called "negotiated price", and there's a lot of paper that goes on and Alan's going to talk about that in a sec. It would have been better to have changed the production schedules and have the production schedules more closely match what Hydro's needs were have them higher in the 1980s, if you will. That wasn't done.

It would have been better to have eliminated the price-protection clause, and I don't think, in the end anybody was happy that there would be a price-protection clause which ended up being a profit-margin protection clause. They tried to get it out and they didn't. I think, you know, you run down the list, not everything in the contract is favourable.

Alan's going to talk about negotiated price and what that means and the problems with a definition and so on.

Mr. Schwartz: As we've talked about these contracts, we've heard the words "negotiated price", we've heard the words "market price", we've heard the words "world price". If you can recall, both the Preston and Denison contracts use slightly different phrases themselves. I thought it would be useful if we began our conversation in this area by looking at the contracts for a moment. You don't have to turn to them.

The Preston contract says that the market price—and that's the phrase that it used—market price, equals the price per pound of U_3O_8 concentrates which Hydro and Preston agree is a fair and equitable free market price.

The Denison contract uses the phrase, "negotiated price" instead of market price, and it says that the negotiated price equals the price per pound of U_3O_8 which Hydro and Denison agree is a fair and equitable price. There is a slight variation in the wording.

The first thing I think we ought to think about is what does that phrase "fair and equitable" mean? I'm a lawyer and I have no idea. What we have is a phrase that is used a lot. One of the first things you should know about the phrase is that it probably means what it says; it means what it says in English. Essentially, it just refers to something that is just and right. It's just another phrase that lawyers are more comfortable with when they talk about these things. Its equal as between conflicting interests; it really is what it sounds like. I don't think there is anything magic about it except to say from a legal point of view it does cover a very wide variety of circumstances and it gives a great deal of "fair and equitable" leeway when considering the topic.

The thing about the Preston contract, I suppose, that's a little more interesting is that the Preston contract uses the phrase "a free market price". I suppose a "free market price" can be said, certainly, to exclude the influence of a cartel right off the bat, although, frankly, I'm less certain what you would do with that phrase when you consider that the world price, whatever

that is, is essentially controlled by the governments of the producing nations. I don't think there is any question about that.

The "free market price" phrase does not appear in the Denison contract.

After I have said that—and while I said that—there is something slightly different about the two—I think I should also say that from the point of view of the drafters of these two contracts, they probably did the best they could. I do not think it is possible to draft a contract which is perfect, if you think of the word "perfect" as meaning there is absolutely no ambiguity. There is something wonderful, as Mr. MacIntosh said, about not being absolutely precise all the time because when you're absolutely precise, if you've left something out or made the slightest error you're in serious trouble. The words that we find in both of them, "fair and equitable" give, I think, to Hydro and the producers, in both cases, the opportunity to make a real and reasoned, fair and equitable argument about what the market price is in the Preston contract or the negotiated price is in the Denison contract.

When they consider what they are, the first thing that happens under the contract is that they're going to try and agree; Hydro and Preston on the one hand or Hydro and Denison on the other hand, are going to agree to what this fair price is. If they don't—without getting into the words of the two agreements—it goes to an arbitrator, and it is then up to the arbitrator to determine for them what this fair market price or negotiated price is.

I should tell you that in considering those questions, there are certain things that will be brought to the attention of the arbitrator, and they differ slightly in the two contracts. For example, in the Preston contract, one of the things that is brought to bear is the then current free-market conditions for U_3O_8 for deliveries in the relevant production year in Canada, the United States of America and other free-world countries. Another thing that the arbitrator would have to consider is the long-term nature of the contractual obligations contemplated by the agreement as well as the quality and quantity of the concentrates involved. Then he'd have to consider that one wonderful thing that all good lawyers put in, and they've put in in this contract—I'm referring specifically to the Preston one—"all other relevant factors". If that isn't wide enough leeway to bring in matters which could be of concern to either party and which the arbitrator should fairly consider, I don't know what is. All other relevant submissions which either of the parties consider the expert ought to take into account. I can tell you, and I'll talk about this a little later, but I can tell you that of course will include the effect of the cartel, for example, I can't guarantee what an arbitrator will do with that, but I can tell you that the contracts surely makes very wide provision, both of them in a slightly different way, for the things which, if the price can't be agreed upon between the parties, the arbitrator must consider in arriving at the price. After I've said all that about the market price and the negotiated price, the bottom line is that what they are essentially is the world price and we come down to saying, what is the world price and why the hell is everybody in this committee and this staff so concerned with the world price? Why are we fixated with it? Why are we talking about it, particularly when it's a resource that's in Ontario, it's in our soil; who cares what the world price is? The simple answer is, I guess, to say that the first reason we care is because the contracts are tied to the world price. The next thing we

have to say is that, of course, any advantage that people have talked about that Ontario Hydro has gained under these contracts in terms of price, is an advantage which is measured against the world price. So that's why we're talking about it, although it doesn't explain its relevance. Now when we look at its relevance I think we have to, from the staff point of view, look at it in a rather stark and realistic way. Now I don't think there's anybody in this room—certainly none of the members and certainly not the staff—who considers that it's totally fair, fortunate, or moral or wonderful that we in Ontario have to worry about the world price when we buy uranium which is found in our province. The problem is that while we all feel that way—and I think it's fair to say that it's a feeling that is shared by everybody in the room—we haven't heard very much about what we can do about it at this point. There is a real world that's operating out there and whether we like the real world or not, there are lots of people paying real dollars based on world price assessments, which is therefore the value that they place on the commodity for uranium; that's what is happening. As long as that is really happening in the world, there is nothing unreal about the world price. It's only unreal in the sense that it is kind of bizarre for us in Ontario to be concerned with it. But it is not unreal in the commercial machinations of the world as we know it. Now the problem that we have when we look at these contracts is that no one has been able to identify for us any significant alternative, a place available anywhere in the world where we can get any substantial amount of uranium on a basis that is something other than a basis which ties it to this concept of world price. So what we think of it becomes almost irrelevant faced with what I consider that stark reality.

Now, while we can complain about it, I think there is a point that we all at this table have an absolute obligation to consider when we think about this contract and when we consider whether it is in the public interest of the people of Ontario. Without the uranium at world price or anything else, we don't have anything to fuel the reactors which we have in place at this time. It's clear we need the uranium to fuel those reactors. Now you may say for a moment, just forgetting all the other issues attached to nuclear power, why are we building these nuclear reactors? Why did we build the ones we've already got? Why are we even thinking of any others? If in fact we have got to pay world price for uranium; it's expensive.

I think all of us in the room at the end have got to recognize one thing about these contracts and this uranium and these reactors which we now have—world price uranium, even at world price, is still, relative to the sources of fuel, an incredibly cheap source of generating power in relation to coal, oil or gas.

Let me just give you an example of that. If we could achieve a 10 per cent reduction—rounding off the numbers a bit just for simplicity, but I think the story is the same—in the price we paid for the uranium under these contracts, we would save a huge number—\$650 million over the life of the contracts. That is a lot of money any way you cut it.

On the other hand, I think it is fair for us to recognize when we are talking about this—because at the end we have to decide, do we take this uranium or don't we—that if we achieved a 10 per cent reduction on enough Alberta coal to provide an equivalent amount of electrical energy, we would

save a cool \$6.5 billion. That \$6.5 billion would be sufficient for us to say: "We have just got all this uranium for free, folks". I think that is something that, unfortunately, we all have to consider in this room. And when we talk about world price, and we say we are unhappy with it, we have to consider that things I said in the opening to this.

I am going to get, later on in this presentation, to the federal government policy on two prices—and I don't want to get into it now; it has its place.

Ms. Gigantes: Can I ask a question? This \$6.5 billion on ten per cent coal—this is the coal equivalent of our nuclear stations, is it?

Mr. Schwartz: It is the equivalent amount of Alberta coal required to generate as much electricity as the uranium we are purchasing under the contracts.

Mr. S. Smith: That's fuel—not just thinking of the comparable capital cost of the stations and the cost of writing off that.

Mr. Reed: That's really not relevant.

Mr. Schwartz: It is relevant because we have—you have to listen to what we were saying—we have the nuclear stations; other than Darlington; they are there.

Mr. S. Smith: They were built precisely because we didn't want to be buying Alberta coal because everybody knew it was more expensive.

Mr. Schwartz: I understand that perfectly. But at this point I am not arguing any of that. All I am trying to tell you is that for whatever reason we built them—and I am making no judgment on that—we have now got them. The question is, can we afford to leave them stand idle?

Mr. S. Smith: They can't use coal anyway in those stations.

Mr. Schwartz: Right.

Ms. Gigantes: Nobody suggested that we leave them idle.

Mr. Schwartz: Good.

Mr. Reed: I would submit to you that that line of argument is really irrelevant.

Mr. Nixon: However, the suggestion that we could get it free is quite interesting.

Mr. Schwartz: Good. Let's leave that irrelevant line.

Mr. Chairman: That was the bottom line of the argument: you get all the rest free.

Mr. Schwartz: We are going to have a long argument on that later.

Ms. Gigantes: Sounds like your wife shopping again.

Mr. Schwartz: Unless the federal government changes its policy, we are still stuck without a two price system for now.

There is one other problem that we talked about when we talked about the world price, and that was this issue of the cartel. I think there are a couple of things we would like to say about that.

I think everybody in this room is aware that the government of Canada helped set up an international marketing organization of non-U.S. producers some time in 1972. The move apparently was in response to an American embargo on uranium imports which contributed to a very depressed uranium industry in Canada.

We also know that that organization, called the Club by some, or the cartel, operated in secret. I guess we know it set minimum prices for uranium sales, and it decided which producer would submit the low bid on some specific contracts; that is what people are talking about. The group probably managed to raise uranium prices during that period; although I must say it is unclear to what extent. Then at some point, somewhere, its efforts became redundant as other world market forces started to pass it by.

For our purposes in this committee we have a legitimate concern as to whether in today's world price that we seem to be stuck with, there is a component of that price which is related to the activities of the club. I think the committee has heard several opinions on this matter but frankly, I think, from the staff's point of view, we don't really have nearly enough information to answer that question, and there is a reason for that. I don't think we simply, looking at these contracts, had the time or the money or the set-up really, to examine this issue well enough to make an intelligent assessment at the end because it is an incredibly complex issue. I don't think any of us at this committee wanted to pretend that we were doing something that we weren't doing. I don't think we could have come up with a very good answer on this very quickly.

Mr. Kerrio: The only comparison we got, Alan, was what it was selling for.

Mr. Schwartz: We're going to talk about that.

Mr. Kerrio: And reasonable increases in what you could suggest a normal market trend would put it up to.

Mr. Schwartz: Right. Now as you all know and what you've heard before—thanks, Vince—there has been a considerable amount of money and time spent in other places looking at some of the club's activities and in particular, looking at the question which is of most interest to us—is there a cartel component in the world price? I think it's useful for us just in one place to put down what all of those activities are.

There is the U.S. House of Representatives International Uranium Cartel Investigation, which is being carried out by the Oversight Committee

called the Moss Committee. They are working in conjunction with the Oversight Committee of the Legislature of the State of New York. There is a grand jury which has been convened by the U.S. Department of Justice to investigate the activities of this alleged cartel. I can tell you right now, don't be surprised if in a couple of weeks or in a few months you find some grand jury indictments naming some very prominent persons, including some very prominent Canadians. It won't be a shock. Whether that deals with the issue before you or not is another question, because they are looking at anti-trust violations in the United States and that may not necessarily relate to any impact on today's price. But that is happening.

As you are all aware, there are many, many utilities suing the Westinghouse Corporation in a Richmond, Virginia, court for reneging on its commitment to supply uranium. One of the key issues in that trial is what were the activities of the club and how did they affect the world price. Westinghouse, which is being sued in Virginia, is running around suing many foreign and U.S. uranium producers before a federal court in the northern district of Illinois, in Chicago, and what they're saying is that they raised the price of uranium through the formation of this cartel. That's the issue that's being tried in Chicago.

As you probably know, the TVA (Tennessee Valley Authority) is suing several uranium producers and I understand that that includes Rio Algom and Denison Mines, in Chattanooga, Denver and several other places.

There is, I guess, the rather bizarre secret investigation which is being carried out in Canada under The Combines Investigation Act under the auspices of the Corporate Affairs Department, and one of the specific questions that that investigation has been asked to look at, as I understand it, is to determine if Canadian domestic uranium prices have been affected by the involvement of Canadian companies in the international cartel. As I understand it, a step further, Rio Algom and Denison are among the producers being investigated.

Mr. Nixon: Would you assist me? Is that based partly on a formal complaint from Ontario Hydro. You didn't pursue that very far.

Mr. Schwartz: As I understood what happened, I think it really came out of the questions which were raised in the House in Ottawa. I think that was the impetus for the investigation.

Mr. Chairman: Was it a reference by the government?

Mr. Schwartz: Yes, and I can tell you, I don't know what give them the idea.

Mr. Nixon: Did you gather from the information that was given to us by some Hydro people that they have made a formal complaint under the Combines Act?

Mr. Schwartz: I would be surprised if that was the case. I do not think that that was the reason for this investigation.

Ms. Gigantes: They told us there had been a complaint lodged, which was being investigated.

Mr. Nixon: Was there any indication from Hydro why they didn't feel that they should make a formal complaint? I don't want to reopen that now.

Ms. Gigantes: You weren't aware of any grounds for complaint.

Mr. Schchart: I think that that's essentially the attitude they've taken. Here's all our stuff. Go do what you like with it.

Mr. Chairman: Plus MacIntosh's firm assertion, which he obviously went out of his way to put on the record that if on any point there is documentation of a price component arising out of the cartel activities, that Hydro, under the amendment of the Combines Act in early 1966, has the right to sue for damages.

Mr. Nixon: I don't want to lead you too far astray, but the thing that concerned me at the time was that the defence given by the minister in the House of Commons, the reason they hadn't take Sinclair Stevens' allegations seriously, was that there was no complaint from Ontario Hydro; and they went on more or less in the terms the Premier did this morning that it was the greatest organization in the western world as far as utilities are concerned, and therefore if they hadn't complained there wasn't anything wrong.

Mr. Ashe: You've got two levels of government recognizing it.

Mr. Schwartz: Let me just remind you, Vince, that the contracts require that we begin, with the negotiated or market price used in the pricing formulas which should be a price which is fair and equitable, a fair and equitable price at the time of delivery.

Under that broad term "fair and equitable", Ontario Hydro, as I pointed out to you a few minutes ago, will have the right to bring to the attention of the arbitrator or expert appointed to determine this price, any factor or matter which should affect that pricing, such as the existence of the cartel.

Ms. Gigantes: Like the sugar cartel?

Mr. Schwartz: Yes.

Ms. Gigantes: We know what happens with such investigations.

Mr. Schwartz: There are several things that I think you can conclude from this. There are not only the investigations in Ottawa, but a great deal of money being spent by a number of people who are very anxious to prove, and I think it's incumbent upon them to prove, exactly this point, that there is a component of the world price related to the activities of the club. They're all going out trying to do it as best they can, and I suppose between that and Ottawa we have—I can't calculate how many millions of dollars of investigations and lawsuits going on. I can't say anything other than at this point there's not much we can do except wait and see the results of those investigations.

It seems to me, of course, that if there is an unsatisfactory conclusion to those investigations, in the sense that we don't get an answer, if there is really a strong feeling that has come out of all of that activity and all of the evidence in those areas, then it is incumbent upon Ontario Hydro to bring all of that evidence before the arbitrator. They certainly do not require a final decision. They don't require that. There is going to be lots of evidence brought out and they can use that evidence to their advantage. You can't imagine any reason why they would not. There just doesn't seem to be any possible explanation why they would not.

The other thing, of course, is if the price paid by Hydro under these contracts is affected by a cartel of which either of these parties is a member, Hydro would have a cause of action against them to recover the difference between the artificial price and the competitive price, but I think I just threw that in as a legal remedy that is available for what it's worth.

The bottom line of all this really is that it isn't realistic for us to expect to come to a conclusion or assessment of the impact of the cartel. I think, myself, that the contracts are brilliantly written and that they really do cover that possibility in as good a way as it can be covered under these kinds of contracts. It would surely be in Hydro's interest if there is any evidence to support this kind of allegation, to go forward and make the argument. I don't think there is anything else I'll say now about the cartel or about the world price. I'll let Jim continue for a while.

Mr. Fisher: The whole point of that thing was to say that Hydro had to give up some things that they would rather have not given up if they could have the contract every way they wanted to. I think it is also fair to say that the producers gave up some things and there are some things in the contract that do have some benefits to Hydro.

In the whole area of controlling costs, there's a number of features that are involved in that. First, there is an incentive in the contracts, because the price is based on a differential between world price and the base price, that in those years when the world price is higher than the base price, there is an incentive for a producer to control the costs, because he does share, his profits are higher, in the case of Denison 50 per cent on any cost saving he might get. So there is a direct incentive. It's not a cost plus which is always a problem.

The second thing is that Hydro participates in the whole operation of the mine. The operation and the construction project as well; and then it has the opportunity to audit the costs, and that happens under all conditions. Now, I think there has been some suggestion that the costs have been too high, that they're not right and they're not real. I think there are some things that we can take out of what we have been given to suggest that's probably not true.

The first is that there is a great deal of background on mining in the Elliot Lake area, and costs of mining in Elliot Lake are not going to be a totally unknown quantity, we do know a fair bit about it.

Mr. Nixon: Would it be fair to say that officials in our provincial ministry of Natural Resources would know now, would they not?

Mr. Fisher: I don't know what level of detail the Ministry gets on production costs. I think what we have had, on the Preston side, Hydro has been able to have its consultant geologist look at all aspects of costs, of both capital and operating costs; and look at Preston's and Rio Algom's estimates and be able to make his own estimates; and in the case of operating costs, I think you will recall that that was one area where they were in very close agreement was on the operating cost side. In the case of Denison, Hydro's consultant was able to look at, and did an assessment of capital costs, of grades and recoveries and so on, and also of operating costs; and in that area he was able to look at a Denison report on capital costs and grade, he did not get any confirmation or otherwise from Denison they were not able to get a look at it to confirm some numbers from Denison on operating costs. So in the sense, what we are looking at is, you're saying how far out would Dr. Robertson's judgment be on costs. I think it is interesting, if you look at it the cost estimates for Preston, which is apparently a similar geology to Denison, aren't that different, which I think gives you one indication that you are starting to get a whole bunch of people who are starting to all triangulate on the same cost. There is a lingering doubt that comes out of that statement that was made, how is it possible for Denison to sell ore at \$6.50 in 1974, and why would then the base price in 1976 or '78 be \$25 to \$27. I can give you my own rationalization of how that's possible, because I don't know I just am going through these numbers and saying how could you possibly get down to something that low?

In Dr. Robertson's report—

Mr. Nixon: Or up to something that high you mean.

Mr. Fisher: Well I'm saying that \$25, how did you get down to \$6.50?

Mr. Nixon: Oh, prices.

Mr. Chairman: Were those really costs or did they have such a surplus of uranium they were willing to sell it on a fire sale.

Ms. Gigantes: There is testimony on that from the States.

Mr. Fisher: Well the testimony I understand was that at that time that was enough to at least cover operating costs. There might have been a small profit.

Mr. Nixon: Well what about that statement from Texas Minerals; or Gulf Minerals, pardon me, Gulf Minerals, that all they wanted the little old cartel for was to raise it up to \$6 which would give them not just their costs but cost plus incentives.

Mr. Fisher: Well, I think that was the difference in the two ore bodies. I think there are a lot of documents—we got mountains of that stuff from the guys in the States at one point, where they do go into the costs of those Gulf mines—

Mr. Nixon: But why would you approach this on a basis of how could they possibly have got the price down that low?

Mr. Fisher: Well it's the way I phrased it I guess. What I was trying to get to was to say "How would it have been possible or even reasonable that at one point in 1974, Denison might have sold ore at \$6.50 a pound and then turn around and say that by the time we get to our contracts it's going to be \$25". That was the question, that is all I was wondering.

Mr. Chairman: In conjunction with your earlier comment that we know a lot about costs and there hasn't been a significant change in costs in that period.

Mr. Kerrio: And they lost the \$3.95 bid.

Mr. Fisher: In my view the only thing that I could get, I took a look at Dr. Robertson's thing which is Exhibit 15, where he does an estimate of unit operating cost in January 1976 dollars. He goes from 1976 to the year 2010 and takes a look at what the operating cost per pound recovered, in his estimate, will be in 1976 dollars all the way along the track.

Mr. Reed: Whose estimates did he use in that?

Mr. Fisher: He used his own estimates. What he got was he had the mine plan and the capital construction stuff of Denison itself. This was their underground and surface plant capital cost estimate. So he knew how they were going to mine it, he knew what their mine plan was, he knew what their ore grades were, he knew what their ore widths were, he knew all that stuff. What we're saying is, he knew.

Mr. Reed: He knew what they told him.

Mr. Fisher: Well he knew what he knew. He had that, he also, from Preston had their material on the Stanleigh mine which came from Preston, from Rio Algom and which I believe came from Bechtel as well. So we had a large number of people who were professional in the area who looked at those cost estimates. Now I'm taking as my basic assumption that Dr. Robertson knew what he was doing and that it's unlikely that his estimates are going to be wildly out. He goes in here and he explains in some detail how the unit operating costs at Denison at that mine are going to climb over the period and how in fact in 1976 they are in the neighbourhood of \$9.33 a pound and by the time we start to get deliveries in 1985, this is going to be \$15.09 a pound. It's one thing which has two implications, and it depends on where the ore is coming from. It's the point that you made when you talked to them about what ore is coming from where. In 1976, and we presume earlier, they were taking their ore from locations which they call 1, 2, 3 and 4, which have two important characteristics. One is that it is a 20 foot seam, or whatever you call it, of uranium, and the second is that it is the highest grade. It is the stuff which is over 2 pounds per ton.

In order to get the production later on—and for that ore—when they're doing what they call stope recovery, they're talking in 1976 dollars of \$14.52 a ton, operating cost. Now if you take that and divide that by an ore grade of 2.25 pounds per ton, which was not atypical of that part of the mine, you end up with an operating cost of \$6.00 a pound per pound recovered. Now if you look at what happens to the mine plan, they go from that high ore

grade, that large ore seam, to areas of the mine where the ore width drops from 20 feet down and also where the ore grade drops down to the just over 1 pound area. What happens—if you just look at the numbers—is that you go from ore that you can mine for \$14.52 a ton to ore that gets mined at numbers like \$15, \$16, \$22 and so on, those kind of numbers.

Mr. Kerrio: Does that not make a great difference in the value of the front money? The front money up there is going to be producing some of that higher grade ore?

Mr. Fisher: Yes, that's possible.

Ms. Gigantes: We're being charged for it already.

Mr. Kerrio: Yes, we're being charged interest on that. What I'm suggesting is that that front money becomes much more valuable to taking that ore out. That's never been calculated.

Mr. Fisher: You mean from the Denison side.

Mr. Kerrio: Yes, that's right.

Mr. Fisher: Yes, from Denison's side they're getting money which enables them to increase their whole capacity. I think that's true and, yes, we have something from McMillan saying that's a possibility.

Mr. Kerrio: It would be pretty substantial.

Mr. Fisher: Yes. Their lower cost ore is being mined early. I think that's true. I don't think there's any argument about that. The later parts of the mine that we're getting to, by the time we get to 1995, will essentially stay \$15 and then it goes to \$16 and by the end of the contract we're at \$17.40 per pound recovered; it is all stated in 1976 dollars. There's no question about it. We're going from the better part of the mine on down to the worst.

Mr. Kerrio: I'm just trying to tie in with the value of the front money.

Mr. Fisher: The value to Denison; yes, it's true.

Ms. Gigantes: When did Dr. Robertson make those deductions?

Mr. Fisher: He did that on November 6, 1976.

Ms. Gigantes: In 1976. And was it not two years before that he had predicted a top world price for 1980 of \$11.80? When did he make that prediction? Was that in 1974?

Mr. Fisher: I think it was earlier than that, wasn't it?

Mr. Schwartz: I think it was 1973, but I'm not sure. I'd have to check. I don't remember the year at all.

Mr. Fisher: But all I was trying to do with that is to say that in January 1976 dollars, it seems quite reasonable that Denison could have mined ore that would have cost them in the neighbourhood of \$6 plus a bit in 1976 dollars which is less in 1974 dollars for those kind of prices, and for them, at the time when they were in a maintenance state in the mine, that would have been a number that one might have accepted, under the circumstances. And one could go from there and end up with operating costs in the mid 1980s of \$15 based on the fact that you're in a different part of the mine, essentially; and then add to that estimates of depreciation and mining tax—it's not hard to get another \$5 on it to \$20—add 50 cents for exploration and add \$5 for their base price; and you get \$25. It seems to me that that's a way that one could put those things together and get from one number to another. It's not to say that you have to like \$25, but it seems to me there is enough. All I was trying to do was suggest was that there was one way of looking at it. When you put it together with the other estimates I think it's hard to substantiate that we, the committee, or Hydro or the ministry or the government are being flim-flammed on costs, that people are pulling the wool over our eyes on the costs and that they're way lower than these kinds of numbers.

Mr. S. Smith: Yes, I accept that, Jim except that if you're using Hydro's mines to dig this stuff out and some of it is going to Japan and some of it is going to us, an argument could be made that the cost should be put on a pro-rata basis. That argument could be made because we're getting all the dregs and they're getting all the high-grade stuff, using our own money. I see your point and I see what you're saying. I don't want to debate it.

Mr. Fisher: I think that's another point. One could say that the contract shouldn't be the way it is; that we should be getting benefit on the capital; I don't know.

Mr. Kerrio: I told you earlier on that I thought that we were partners.

Mr. Fisher: It's true.

Mr. Kerrio: You never relinquish the profits.

Mr. Fisher: The second thing which I don't think we need to go into again and again is this question about downward flexibility. I think it's fair to say that in some sense this is a contract of some term with an option to renew because, in a sense, you're not locked into it; you're not locked into the contract for 36 years. At the end of 14 years, your capital is repaid from Preston, and if you wanted to say, "We'll cut it off there;" you'd have all your capital back again and you could just cut it off if you wanted to. So in a sense it's renewable.

The other question, again on negotiation, and what you could have done, and in recognizing the fact that these contracts are negotiated compromises, that they are not perfect conditions—and I think that point about what happens to the capital is another one—I think that we couldn't ignore the limitations on Hydro's position that they had, and which we've talked about before. I think it was clear Hydro needed uranium. They were committed to building nuclear plants. They were committed in the planning sense, that they thought that was the way they were going to provide electricity

at the lowest cost, that's where their mind was at. I think they were committed in the sense that they had concluded that we were getting really even beyond what sort of the physical limitations of fossil fuel importation were, so that we were going to have to do something in that area. They had money into it. So they were up against the wall in the sense of saying that they needed it. And you can read that all the way back in the documents in 1973. They recognized they needed it.

On the other side, the producers did have options. The negotiations happened to take place during that period when utilities were starting to scramble for supply and the market price was rapidly climbing. That's when we happened to get into the whole heat of the negotiations, during that time, which in Exhibit 3, if you look at that thing, that Nuexco, where they talk about what happened to the world price at that time and the whole supply-demand thing was reversed. Westinghouse's short-sell surfaced and their renegeing on their commitment, all came out at the same time and the thing started to go. And as we've talked about a lot, there was very limited protection under the federal guidelines.

The other thing you have to say, before you go too far in saying that Hydro was in an impossible position, which would be to say that the producers came forward because they are good corporate citizens; I think if you take away good corporate citizen part and just say, "What about these deals from their point of view? Why did they come to these things? Why did they break?"

Mr. Nixon: I would suggest taking away the dividends, instead of citizenship (not clearly audible)

Mr. Schwartz: Do it timidly.

Mr. Fisher: It seemed to us quite clear from—I don't know if it's clear, but I think one can put together from what they have said and from the letters and the exchange that goes on between them and the federal government, that they were aware that export permits would be difficult or limited while Ontario Hydro's position was open, and that they were going to have to do something. I think that, as the people from Rio Algom said on the record that they realized that they were going to have to make some concessions.

Ms. Gigantes: Jim, could I just take you back to page 15. I don't like to be picky, but I will. In point 2, "The Denison contract can be curtailed, temporarily or permanently, and can be cancelled if the world price is below the base price for five years". In the worst possible case, that could go on for 12 years.

Mr. Fisher: That's right, because it doesn't start until—the curtailment provision doesn't start until 1985, isn't that right? That's right. It's worse than 12; it's 14. It's five years plus two; and we've got two years before 1985. It's 14 in the worse case.

Ms. Gigantes: That's worse than I thought.

Mr. Fisher: They can make it 14, if they want to; that's what it is. So I think on that side of what Hydro really had going for it, one was that it

had what the producers must have accepted as the political reality that they couldn't send all of Ontario's uranium out of the country and leave Ontario with an empty hand. I think they must have accepted that they would have to do something.

The second thing that they would have to look at is that while we had said before why it was advantageous for Ontario Hydro to contract with an Ontario producer because of the minimization of supply disruptions, so too from the point of view of the producer, Ontario Hydro had to be the best customer that they could conceive of—good, solid, long-term stability, in the same jurisdiction, financially sound, its word is secure. Hydro was an awfully good customer to have.

I guess the question which is still in my mind, in both our minds, it is easy to see Preston's position. Preston/Rio Algom was sitting on 350 million pounds. They committed 72 million pounds. They got themselves now free to export. They made their concession to Ontario. They are not in that bad a position. Why did Denison commit the entire production of its mine to the year 2011? I can't rationalize their position. I can see why they have to sell some.

Ms. Gigantes: We have Mr. Robertson's word that it is full production. That may not be accurate, considering the provisions in the (contract or project) (not clearly audible).

Mr. Schwartz: But it is a lot of it. There is no question that it will be a substantial amount.

Ms. Gigantes: Obviously Denison are considering it is important to have that element in the contract, suggesting that other contracts might be . . .

Mr. Fisher: So that in the end there has been a lot of discussion about who got the better contract. I must say personally I can rationalize Preston's position—Rio Algom's position—a lot better than Denison's position; the kind of deal they made. I believe Robertson's estimate essentially; if there is more there is not going to be a lot more, why did they sell the entire production of their mine for that period of time.

Mr. Chairman: That should help you, Bob.

Mr Fisher: Great speculation, I don't know.

Mr. Nixon: (Denison) (not clear) wanted to go hunting for uranium in the United States. Maybe they don't agree with everybody else that there isn't any left to find.

Mr. Fisher: I think one can make the case that what Denison got, if the contracts are approved—and this is what they were into, saying should we do the whole thing—they got, out of the whole total corporate position, where they are now speculating in oil and various things around the world, they got one solid base of production year after year at a price which is essentially set, and that is not a bad base on which to go off into other ventures. But at a cost.

Anyway we will just conclude by saying, it is our view before considering any other mechanisms—which we will get to in a second—which you could take to protect the public interest, it is our view that the contracts are a reasonable balance between the interest of producers and Hydro.

The price, as we know, ended up as a balance between the producer's side and the buyer's side. In the case of Denison it was halfway; and as you recall Preston originally went halfway and then when they got into the whole Stanleigh thing and they were asking to open up a whole mine, they dropped it a little bit further.

The quantities and financing are a balance, between on the one hand Hydro's desire to secure supply but have flexibility to reduce them; and on the other hand the producers need to have protection of the large amounts of capital that would have had to have been put up.

So given the leverage everybody had they are balanced. But maybe you can change the leverage?

Mr. Schwartz: The next thing we want to look at with the committee is our view that approving these contracts in no way forecloses any further steps to ensure that the public in this province receives the appropriate benefits from its uranium resources. That is, if there is something more we can do, in our view we are not precluded from doing it by signing these contracts. We will talk about all of those things step by step.

I think throughout our deliberations—almost from day one—there has been concern expressed by several of the members of this committee that through these contracts the producers may be earning excessive profits, and of course those excessive profits are at the expense of the public in this province. I think we have had three main approaches to dealing with this that have come out of our deliberations over the last few weeks.

The first is the possibility of having a special provincial tax on uranium mining to redress that imbalance if one exists.

The second we discussed is the possibility of Hydro or the province owning the assets and realizing the profits directly.

The third we discussed is the possibility—we have called it a two-price system but I guess we were talking about a supply board that would provide domestic users with uranium at a price based on a cost related formula, which presumably would include a reasonable profit. I think that's what we have been talking about to a large extent when we talked about two-price systems and whether that is something that one can expect.

Each one of these three approaches, these broad approaches, has different jurisdictional implications and different effects on the public and on electricity consumers and I think it would be useful if we spent a couple of minutes just looking at them one by one. The first approach is that of the special tax that we have talked about. It's clear to us, and I hope it's clear to everybody here, a tax can be imposed by the province to apply to all uranium mining. It may even be possible to apply it just to these mines but I don't want to get into

that speculation. I think clearly we can apply a tax of some sort. The province has the jurisdiction in this area. I don't think that that's a problem and I don't think we have to be concerned for the moment with the possible format that it chooses. It can do it, in several ways. It can, for example, change the mining tax. It could change the increments in the mining tax. It could do it through some new legislation that is passed.

Mr. Nixon: Like a royalty.

Mr. Schwartz: Yes. It has several options and I don't think we have to worry about which option is best for the purpose of our discussion at this moment.

I think, though, that what we have to realize is that the effect of a tax will be a higher cost to the electrical user in the province because it's clear that the tax will be added to the base price. If there is a tax, the additional royalty or tax or the additional increment to the mining tax, whatever it is, will work its way back into the base price and to that extent—that doesn't mean it's a bad idea, but just so that we have the balance of the effects of all this, to that extent it will mean that the price goes up somewhat.

On the other hand,

Mr. Nixon: President Carter is suggesting that be done with energy there, and he's going to give the extra money back to the person who's using the energy so that the money just gets passed around.

Mr. Schwartz: On the other hand, of course, there's the benefit to the general taxpayer, that's most of us and most of the people who use electricity, of course, because the tax revenue will accrue to the provincial treasury and we know the provincial treasury will use it wisely on behalf of all the citizens of the province.

Mr. S. Smith: (inaudible) The new subway vehicles.

Mr. Ashe: I think you should re-emphasize that one *Mr. Schwartz*.

Mr. Schwartz: But really the serious part of it is that when we look at the whole tax issue we should recognize on the one hand we can do it, on the other hand it will result in an added cost to the electrical user but the important thing is that the revenues so derived will come back to the province and will be, of course, taken from the corporations. That's what your concern is.

Ms. Gigantes: Did I understand you to suggest that you think it's possible to apply a tax simply to these two contracts?

Mr. Schwartz: I'm going to get into trouble with all the lawyers sitting out there. I am not convinced it is not possible. I know that we have had some general discussions about that. I don't think I am in a position to tell you yes, it's possible. All I can say, in the usual, careful lawyer-like way is that I'm not convinced it's not possible. And I will leave it at that.

We're going to talk about these a little further but I just want to first look at the approaches that are available and the second one is this question of ownership. Now, I think we have discussed this point ad nauseam—till it's coming out of our ears, but I want to re-emphasize again today because we have done our own work and agree wholeheartedly that this is the way it is, whether we like it or not. Expropriation, nationalization, government takeover, whatever word you want to use, can only be done by the government of Canada; the government of Ontario cannot do it. The effect of section 17 of the Atomic Energy Control Act, as you have all heard on several occasions, is that the government of Canada has exclusive jurisdiction in this area. I want to say that in my view, and in the view of the lawyers that have appeared before you, it excludes the province from expropriating this resource. I don't think there is much serious doubt about that. That is the way it is.

Ms. Gigantes: Would you not be talking about the leasing arrangements?

Mr. Schwartz: Which kind of leasing arrangements are we discussing?

Ms. Gigantes: Denison, for example, those that Mr. MacIntosh has mentioned. I'm referring here to Exhibit 49 which we were given late this week.

Mr. Nixon: There's a lot on the second page, in which Mr. MacIntosh says he does not think those leasing provisions can be used to interfere with the overall title.

Ms. Gigantes: Yes, I know.

Mr. Schwartz: When we're talking about the next point, "purchase can be accomplished by the province" maybe that will indirectly answer your question. There is nothing to prevent the province from owning a uranium mine which it acquires through the normal contractual buy-sell arrangements that our laws envisage. There is nothing that prohibits that.

On the other hand, the province is in no special position if it tries to get into that kind of a situation. If it wants to buy, and we'll talk about that a little more—we're going to require a willing buyer, the province, and a willing seller. We don't have any special rights other than the rights that are available to anybody else.

I'll have to look at Exhibit 49 and I'll do it in a minute and try to answer your question. I'm just not sure what you're referring to. I'll get back to it.

Let's just look at the question of ownership for a moment in the briefest sense. There is no necessary benefit to the electric consumer. There is only a benefit if the expropriating authority will sell at terms and conditions that are better than the terms and conditions we've got under this contract. That's the first thing. Or, if the province is going to purchase it—and we'll talk about this a little more—unless the province can buy it at some sort of a bargain, at some sort of a discount, the province doesn't have much leeway—and we'll get into that a little more later—in what it can sell the product for. So what the province can do if it buys, or anybody can do if they buy, will be very closely related to the price they have to pay for it.

The final thing that we talked about, the final broad approach that we talked about is domestic price protection. It's totally within the federal jurisdiction, as I think we all know by now. There is absolutely nothing that Ontario can do to force a change. It certainly can make its views known, and we'll get into that a little later, but there is really nothing that it can do to force the federal government to change if the federal government says "No". I think that's the only comment I can make in the general sense at this point.

Mr. Chairman: Before you go on with that, can I ask a question with regard to the ownership? Is it not possible to envisage a middle ground in which through negotiations between the province and the federal government there was an agreement for joint approach that might involve a change in ownership while leaving the overall jurisdiction of uranium still with the federal government, in the same general way as Lougheed has negotiated with the federal government for a somewhat different handling of resources?

Mr. Schwartz: Yes, they wouldn't be able to negotiate the takeover, if I can use that word in the broad sense, unless the government of Canada was prepared to make the takeover. In other words, if the government of Canada, for some reason, determined that it was advantageous for the Province of Ontario to own the mine, or for Ontario Hydro to own the mine, and if they determined that the only way to do it was through expropriation proceedings, I don't imagine that anything could stop the federal government—nothing could stop the federal government from expropriating—

Mr. Chairman: The federal government would do it on behalf of the province?

Mr. Schwartz: —and then make whatever deal they want to make with the Province of Ontario to get it into the hands of the Province of Ontario. I don't want to really comment on how real I think that scenario is, but there is nothing to stop them from dealing with it once they've got it. I will tell you, of course, on the other hand, that when you think about the federal government expropriating it, if they should, they would still have to expropriate it under the rules of expropriation and pay a dollar value which was related to the value of what they were expropriating. We get back to the problem of what kind of a bargain can they give you if they can't get a bargain price. So I just put that out for your consideration.

Now for the rest of this section that we're dealing with, we would like to offer you our views on two aspects of each one of these three approaches because we think they're kind of important. The first aspect we would like to look at in each one of these three areas is what conclusions can we as a committee draw about the actions of the federal government, the provincial government, and Ontario Hydro, because they have all followed slightly different courses and they've all had different levels of involvement.

The second one is, what are the implications today for each approach if the contracts are approved and what's the impact on an excess profits tax if we approve the contracts? What's the impact on the possible purchase or expropriation if this committee thinks that we ought to approve the contracts? So we want to look at those two questions in relation to these three alternatives.

Now in our view the government of Ontario's case for a special excess profit tax was rather unconvincing. There are a few reasons for our view. On the one hand, there is evidence that the government did realize early on in the game that the taxing power was available if the producer price got too high. Now there was a meeting—and I think it is deep in the bowels of Exhibit 35—there was a meeting that took place in July 1974, and that meeting was attended by our then Deputy Minister of Energy and several other representatives of our provincial government and several members of the federal government including Messrs. McNab and Runnalls. At that meeting the notes of the meeting show they discussed the possibility that the domestic price—the world price—may become so high that excessive or windfall profits were possible in the future and they talked about the possibilities that were available to tax those profits away. So it is fair to say that people knew that possibility was there way back in 1974.

The other thing to say for the government's side of this argument is, the new Minister of Energy stated to us, when he came here, I guess on the last day of January, that he was willing to act in this regard. He said if either Denison or Preston is found to be making unconscionable profits under its agreement with Ontario Hydro it would be open to the government of the day to exercise its taxing powers to redress the situation. He went on to say a little bit further; "I can assure the members of the select committee that the government would be prepared to exercise this power if, as and when the need arose". Now that's what you've got on the side of saying they were aware of it and they were awake to it and they were serious about it.

On the other hand, it was clear when Mr. Baetz was before us from our conversations with him—I'm freezing to death in this room—that, in fact, Mr. Baetz and no one in his Ministry or elsewhere has even thought out the broad outlines of such a tax. You can argue about whether that's relevant or irrelevant at this time, but Mr. Baetz advised the committee that at this time the government did not have a set of criteria or guidelines which would help it to determine whether the uranium producers are indeed earning that excess profit. One would just imagine that prior to implementing an excess profits tax we would like to have some idea of what constitutes excess profit and some sort of monitoring to see when you're getting to that stage. That thought hadn't come to anybody's mind in the provincial government as yet. It also seems a little surprising to think that the government would have approved these contracts that are before us without any qualification whatsoever. They would have said, "These contracts are great. Let's give them the orders-in-council," and then developed a special tax because these same contracts created an excess profit. There is something contradictory about that kind of an approach. All this does is raise this interesting contradiction. It doesn't mean that they're in any way stopped from doing it. If they thought there was excess profit, they can go ahead and do it. But one would think that from a point of view of logical reasoning, their approach to consistency in government, that if that was a scenario that they seriously envisioned, it should have been something they talked about up front, not when they were sort of dragged in here by the committee and it became a question of discussion by the committee members.

Ms. Gigantes: Alan, in legal terms, if a company is contracting with a purchaser and the base price involved in the contract includes a tax and the

purchaser then turns around and imposes an excess tax somehow not included in that base price, can there be grounds for breaking the contract?

Mr. Schwartz: First of all, the simple answer is no, I don't think it would be. I will also tell you that these contracts, in their provisions—and again, I keep saying this because as a lawyer I can't help but be impressed by the drafting of the contract—they clearly contemplate the possibility that at some future time tax laws may change. The mining tax may change. Some other taxing laws may change and there may be additional taxes. So the simple answer is no, and the other answer is the contracts contemplate the possibility of more tax and work them back into the base price as all other taxes, as a cost.

Mr. Ashe: Except corporation tax.

Mr. Kerrio: Excuse me, Alan. Did you say "work them back into the base price"?

Mr. Schwartz: Yes.

Ms. Gigantes: Does that include excess profits tax?

Mr. Kerrio: Yes.

Mr. Reed: It's really pretty meaningless.

Mr. Schwartz: It isn't really meaningless. You can get into that argument, but I can just tell you that that's the way the contracts are. It is not an unusual thing whatsoever. The tax that the company pays is a cost. I don't know what more I can tell you.

Mr. Fisher: The point of it is that if the tax is worked back into the base, you can say in effect the company doesn't pay, but what happens is you've taken his profit away.

Mr. Schwartz: And that, I assume, is the purpose. That's what we thought was the purpose. You've skimmed off the "windfall profit".

Ms. Gigantes: You don't take back more than you've paid as a purchaser?

Mr. Schwartz: No, you do not.

The other thing to say about this excess profit approach was that the government's willingness to impose an excess profit tax, or to talk about it, appeared only after members of this committee had stated publicly and forcefully that they were concerned about excess profits and raised the issue of a possible excess profit tax of some sort. In that regard, we're all aware the government certainly had the opportunity to raise this issue at the outset. The first witness before us was the Hon. James Taylor. He could have talked about that. He made a lengthy opening statement to us, and I can just refresh your memory and tell you—and I'm sure Dr. Smith (S. Smith) remembers this quite well—he spent some time discussing with Mr. Taylor on that day the whole issue of profits. He didn't talk specifically about an excess

profit tax, but he did talk about profit levels with him and they had a discussion that went on for some time. It was certainly open to the minister during that discussion to say, "This is a possibility". It never came out.

So all in all, I think our conclusion in this area is that an excess profit tax is something which the government has said it is willing to think about seriously at the appropriate time. I don't think that Jim (Fisher) and I in any way question the sincerity of the Hon. Reuben Baetz when he said that. We just raise these other issues and just say it's a little strange how it all occurred. I don't know what conclusions you draw from this other than it was a little strange. We would have, I think, preferred to see it come out in a slightly different way. Then again, while we say that, it's a little strange, I don't think that we, as a committee, ought to be too concerned about it. If we come to the conclusion that these contracts aren't bad and they are in the public interest because we need the uranium and there is no alternative and for whatever reasons we might decide, but we are concerned that there is an excess profit, there is a profit above what is reasonable under the circumstances—and I don't want to spend too much time on that, but we have to remember what is reasonable in this case is fairly complex; it's not just a return on this mine, it's a return on uranium mining and uranium exploration. But, forgetting that, if we could determine this, we could always approve them as a committee and say these contracts ought to be approved but the government, the present government, should develop and present to the Legislature a taxing scheme for uranium mining which works out some sort of system, which determines what is and what is not reasonable profit, we could get to talk about those criteria and guidelines which we say do not exist at the moment. It's even possible, I suppose, for us to recommend that the government give us back the problem and we'll work it out for them. I mean, if that's something the committee thinks it ought to be doing, there is certainly nothing on earth to stop this committee from saying "Approve the contracts. Not only do we want the government to develop and present a taxing scheme but we, as a committee, are going to look at that problem and we'll present our own scheme".

I just put that out as a possibility. Why you would want to get into that, I don't know but you might; and it's a real possibility that I don't think you should discount. Now there are some things that we wanted to say about this whole issue of excess profits just to put it in a perspective. The first thing is that if excess profits do occur, it's just inconceivable that they'll occur before 1984; and the reason for this has to do with the production schedule. It doesn't have anything to do with the prices; it has to do with how much they're delivering. Prior to 1984, there are no deliveries by Preston, so there won't be any excess profit.

There are only very small deliveries by Denison. In 1984—I think that's the year—Preston just begins their deliveries and Denison just begins to start delivering just under 2 million pounds in that year.

Ms. Gigantes: But we advance the money immediately?

Mr. Schwartz: Yes. We advance the money immediately for the capital construction. •

Mr. Fisher: Not immediately. We advance the money between now and then for the capital construction.

Mr. Schwartz: As things are happening.

Mr. Fisher: As it goes ahead.

Mr. Schwartz: There are ongoing advances to meet the progress being made in the capital construction.

Ms. Gigantes: Well, there was the request from Mr. Roman that we shell out \$100 million to \$130 million as of December for expenditures made. So presumably he is going to foot the bill then.

Mr. Fisher: No. He wanted Hydro to guarantee that they would pay certain moneys that he was about to commit for. That's different than the provisions under the contract. The provision under the contract are that you would pay, I think, at the end of the month for all expenditures that were made up to, I think, about the fifth of the previous month; so that you would be paying.

Mr. Ashe: He wanted a commitment of \$25 million.

Mr. Fisher: Well, he had only spent \$25 million. He was about to commit for more money and he said, "You have got to guarantee to put up that money or I won't commit. What I will do instead is I'll take it and sell it somewhere else". You don't put it up all at once, bang, in 1978.

Mr. Schwartz: The other thing other than when the excessive profits may begin, is that, it seems a little strange to think that you can bind the government of 1984 to any particular taxing scheme. I guess 1984 is just a weird year to me: I still remember reading the book in high school and getting very nervous, but here it is over and over again.

Mr. Reed: It's all coming true.

Mr. Schwartz: Now, Jim and I, I don't think we're prepared—I know you are more prepared than we are—but we're certainly not prepared to speculate on which of the three parties is going to form the government in 1984. I have no idea at all.

Mr. Reed: Oh, you should have by now.

Mr. Schwartz: You're certainly not referring to past performance. Don't draw me into this.

Mr. S. Smith: By then we might have been defeated again.

Mr. Schwartz: The other thing is, not only don't you know which party is going to form the government, even if you knew which party you don't know which leader. You don't know what the economic picture is going to be. You don't know what the economic picture elsewhere is going to be. We don't really know what will be reasonable in relation to profit; when

you assess a reasonable profit in 1984, what is that going to be? I think that those are some of the real concerns you must have when you think about how much can you do with this excess profit tax approach. It doesn't mean it's an approach you should forget about. I still think it's an important thing for us to think about, because we can do something with it.

The third point on this page really says the best we can realistically hope to achieve is to have everybody, all three parties, support at least a concept of a special tax as guidance for the government of the future. I'd like to say a word or two more about that, because it can mean a little more than just some vague promise.

First of all, all three parties can at least agree on the principle that there should be no windfall or excess profit. We're going to have a great argument about what excess profit means. I think that that is something that I can't pretend to be very helpful on at this moment. But one of the things we can do and one of the things I talked about a few minutes earlier, is to help to develop some criteria and guidelines, general guidelines, now or a year from now, so this committee can recommend that approach, and specific guidelines along with that general approach for looking at what would constitute excess or windfall profits in this particular industry, could be monitored every few years; and updated I suppose and changed, if circumstances warrant the change. Whatever government was the government at the appropriate time would have to decide what it would do with it, I suppose, but it certainly would have had the general support of everybody to that time.

I think that's where we come down on this excess profit issue. If it is a concern there is something you can do. I don't think you should say it's nothing at all, but while you're doing it I think you have to balance how far you can go realistically.

Mr. Ashe: Mr. Chairman, may I interrupt for a moment please? Would it be in order to take a few minutes out of the committee's time at this time to try to determine what we're going to do following the presentation? I think we can assume we're going to go through to completion of this presentation, which the way it's going is going to take another hour or hour and a half. There's no problem with that. But seeing as some people may want to rearrange other commitments, can we determine what our schedule will be thereafter?

Mr. Chairman: I envisage the scenario as follows: After we've heard from the committee, we will adjourn—that is the staff.

Mr. Schwartz: After we've heard from the staff, don't make us the committee.

Mr. Chairman: We will adjourn and resume tomorrow morning, at what hour we'll have to take a look at in a moment. I presume there may be some general discussion, but I assume that in the interval individuals, or party groups within the committee, let's be realistic, will have put their heads together, hopefully to come up with a collective rather than an individual, although there is always possibilities for individuals to take into individual stances; and in the general discussion, presumably tomorrow, that will emerge.

Mr. Schwartz: Quickly.

Mr. Chairman: Rather quickly, I hope; which means that there's going to be a lot of work done overnight.

Mr. Schwartz: If it hasn't been done already.

Mr. Chairman: I presume, at some fairly early point, we face the basic issue; because there is before this committee one question, does the committee believe that the contracts are in the public interest. If the committee agrees that they're in the public interest we then proceed to write a report documenting that. If the committee decides that it is not in the public interest, partially or wholly, unanimously or by a majority vote, then we proceed to write a report to document the conclusion we came to. I would think, If I may just envisage all scenarios, that if the majority of the committee states that the contracts are in the public interest, that information will get out and the government will hear it, conceivably we can confirm it by a letter to the Premier immediately as far in advance of the 28th, with the report to follow with the documentation.

If the committee decides by majority vote or otherwise that it doesn't believe that they are in the public interest, I think it might be a fair proposition that we should officially communicate that to the Premier—perhaps in a letter from myself on behalf of the committee—say that the documentation of it is now being compiled in a report which we will place in your hands as quickly as possible.

Mr. Ashe: I have no general disagreement with that, Mr. Chairman. If everybody else agrees generally to that can we determine what might be our time frame tomorrow; recognizing that the Legislature reconvenes tomorrow at three o'clock. Can we maybe determine a starting time and a maximum finishing time tomorrow?

Mr. Chairman: We had talked in terms of ten to one. The staff, in their glowing fashion whispered in my ear before lunch, that perhaps we should contemplate starting at nine or eight, or seven, or six.

Mr. Schwartz: Let's not get hysterical.

Mr. Chairman: Whatever time the committee feels is necessary, because I think to be realistic that we can't go beyond one o'clock.

Mr. Kerrio: I don't mind an early start as long as you stay, George.

Mr. Ashe: It's all right. Don't worry about it.

Mr. Chairman: George, to answer your question, can we decide now what hour we want to start tomorrow, because I doubt whether we will have any clearer idea of how much time we need by the time we have finished.

Mr. Schwartz: Certainly from the staff's perspective we are going to tell you what we think tonight; then we will watch you go tomorrow. And we will just sit back and listen to where it ends up.

Mr. Chairman: What hour were you thinking of, George: Just so I can get something out on the table.

Mr. Ashe: Eight o'clock. I would be here at six, but being realistic too I think eight o'clock.

Mr. Chairman: Quite frankly, there may be sense in starting at eight; if I illustrate my point, and if we get finished by eleven or 11.30 or twelve, all the better. But if we start at ten and discover at one o'clock we are not really finished, we are then really in a bind; and I would be inclined to accept, cringing, the suggestion that we start at eight o'clock, just so we can make certain that we can complete our discussion tomorrow, because the crunch is on, the bind is on, in time.

Mr. Ashe: To put some perspective to that, may I just throw it out then, Mr. Chairman, as a motion, and see what the consensus of the committee is, that we commence deliberations tomorrow at eight o'clock with a maximum finishing time of one p.m.

Mr. Chairman: Any further discussion on that motion? Motion agreed to.

Mr. Chairman: It is like the UN council, there were certain absentees who didn't vote, but those who voted were unanimously in favour of it.

Mr. Schwartz: I guess the final point we can make about the excess profit tax is that approving these contracts, of course, in no way hurts your position insofar as your ability to put in an excess profit tax if, as and when, it is appropriate. That is the bottom line for that. It just makes no difference.

Mr. Kerrio: Where does the tax go?

Mr. Schwartz: It would be a provincial government tax that would go to the provincial treasury.

Ms. Gigantes: To Darcy.

Mr. Schwartz: That's correct. It goes back only through the mechanism of the provincial government.

The second one we would like to look at, if we could have a minute of quiet, is the purchase alternatives.

We would like to discuss three things about that. There are three issues in this purchase alternative that we would like to address as a staff.

The first is that in our view the Government of Ontario took what we call a casual approach to this alternative; they didn't examine it as closely and as carefully as one would have imagined they might have.

The second is that in our view the purchase option is always available if the committee, or the government still wants to pursue it; it doesn't get closed off.

Thirdly—and most importantly, from our perspective—is that a positive result is much more likely to be achieved if, in fact, we approve these contracts; and we'll deal with each one of those points in some sort of order. Now, this particular slide is going to take us a while to get through, so have a bit of patience. I think it is important that we look at Ontario Hydro and the government of Ontario, and sort of see what they both did and how we got to where we are.

First of all, it is clear that Ontario Hydro recognized the merits of the purchase approach very early in the game. They raised the question of whether it should proceed to procure its need for uranium by the acquisition of it through a takeover of one of the two major Ontario producers very early in 1973. I should also say though that when we refer to Mr. Gathercole's letter, there has been—in my view—a slight bit of misinformation in what Mr. Gathercole said. I would just like to read that for a moment. He said, "We believe that either Ontario Hydro or some other agency of government should effectively own or control a substantial portion of the uranium resources required to meet our needs for at least the next 30 to 50 years". We have all, when we talked about Mr. Gathercole's letter, focussed on one of the several approaches that he talks about in that letter, and that was the possibility that Ontario Hydro or the government would purchase an existing mine; and to that end he talked about a feasibility study of some sort. He said we had better get a consulting geologist to investigate various matters. But when he talked about owning he also talked about controlling. I think it is clear that he was considering the possibility at that time, as well, of entering into discussion to get effective control under long-term contracts. I think it is just fair to Mr. Gathercole and for the tenor of our discussions to say that what Mr. Gathercole was doing—and I think with a lot of foresight—was saying that we have to tie up this uranium, that there are lots of ways of doing it, that one is a takeover: Let's get the mine somehow.

While they did that very early on, it didn't take very long for us to get a response from Mr. McKeough, and by January 4, 1974 Mr. McKeough said, "I agree wholeheartedly with the thought of Ontario Hydro purchasing uranium reserves or obtaining contracts which will provide uranium supplies over time. I am much less enthusiastic about the thought of Ontario Hydro purchasing an existing mine; however, I recognize that in pursuing all possible alternatives this is an option that should be considered and therefore I would be interested in the results of any economic evaluations that may be carried out". It's hardly a ringing endorsement of somebody getting out there and examining the possibility; "if you examine it I'm kind of interested in seeing what the results of your examination are". That was the government's initial reaction and that's what we have on the other side—they really did express, in our view, disinterest from the start. It wasn't something that fit with the government's approach to things.

Now, by June 14, of 1974, after hearing a Hydro presentation on this whole uranium question, there was, in our view, even less enthusiasm. "I am convinced," said Mr. McKeough, "that there has to be a better way than simply buying a mine." Again, it's hardly a ringing endorsement for those persons who wanted to get involved in the examination of how feasible that approach was. But it is also true that Ontario Hydro and, maybe to some extent, the government, by that time, was recognizing that there was a real need to do a

feasibility study; and, I guess, the next point we would like to look at is that Hydro, after recognizing early on that purchase was a possibility did, I think, the proper thing—the thing that a good corporation would do—and that is they assigned a high-powered team to explore that alternative as fully as they thought it could be explored. I guess there are a couple of things we have to say about that study.

First of all, it began when a whole bunch of other things were happening. It just didn't go on in isolation. At the same time that the study was going on, Hydro was actively negotiating with Denison on the one hand and at that time it was Rio Algom on the other hand. There were talks going on between Hydro and the provincial government, to some extent, and with the federal government about the possibilities of a marketing board and a two-price system. You will remember that most of those discussions were happening in 1974. There was some attempt to place a little pressure by having the federal government impose a moratorium on exports while we in Ontario got our own situation cleared up to the best of our abilities. So all that was happening while Ontario Hydro's team began to look at this. I think it's important that we keep some balance in mind. It wasn't just one thing happening and one approach. A lot of different possibilities were in the air. In 1974 it was a new and as yet unresolved issue.

We are told in some of the evidence that is before us, by Mr. Taylor, that even within Hydro at that time, when the study team began, there was concern being expressed, and I'm quoting, "that such a course would significantly alter the scope of Hydro's operations and might distract us from our main role". All that was happening at the same time. There were all these various forces pulling on this team. But while I say this, I think Hydro did what it does quite often. It conducted the thing in as fair a way as it could. It gave it a small group of outside consultants and a group of persons inside Hydro who were committed to the project and who, in the words of Mr. Nastich, ended up writing a "lucid report". So that they took it seriously even though all this was revolving around them. They took it seriously. They presented a lucid, clear, document, which had some conclusions in it.

While all that was happening, what was happening on the other side, the government side?

Mr. Chairman: Alan, before you leave if you're on the Hydro side, can I just get clarification? The quote you gave from Mr. Gathercole which you said indicated that there'd been some misunderstanding, that there was the ownership or control of mines, and the control might be through long-term contracts. Where was that from?

Mr. Schwartz: That's from his letter of December 10, 1973 to the Hon. Mr. McKeough.

Mr. Chairman: I have it right in front of me. It seems to me that

Mr. Schwartz: Look at page two, paragraph two, where he uses that quote. The first whole paragraph is where he uses that quote. Then later on in the letter as you go through, he says, "There's lots of things that we ought to be looking at". Number three is "Enter into detailed discussions with Canadian

uranium producers to determine to what degree effective control of supply and price could be achieved under long-term contracts. The companies contacted will be Rio Algom, Denison, Kerr-Addison, Eldorado, Gulf and Uranerz"—the one that I can never pronounce. Those guys.

Mr. Chairman: The only point I'm making is that in making an accurate assessment of what he was saying while he was raising a number of options, in the first paragraph he states: "nearly a year ago we raised with the government"—and that means, I assume, almost immediately after the appointment of Darcy McKeough as parliamentary assistant to the minister.

Mr. Schwartz: The possibility of acquisition.

Mr. Chairman: There were discussions. "Nearly a year ago, we raised with the government the question of whether we should not proceed to achieve this objective by the acquisition of the uranium reserves through the takeover of one or two major companies". On the next page, in the paragraph to which you have referred, "In our view, we should proceed with the purchase of the uranium assets of Denison Mines, which are understood to have the largest low-cost reserves available, as quickly as possible". So while he raised a number of options, I don't see how you can conclude from that letter that their top, clear priority was acquisition of the uranium assets.

Mr. Schwartz: I think that's true. All I was really trying to say was, I think that's completely fair to say from the Hydro point of view at that time—all I was really trying to indicate was that while that was their preference at the time, it isn't fair to suggest that they weren't saying there is all this stuff out there and we're going to look at it all. That's what we're about to do.

Mr. Chairman: In the same scenario, on June 4, which would be seven months later, you have the notes, you have the memorandum from Mr. Matthew to his director, Mr. Cunningham, in which his 15th point was quite unqualified: "Acquisition of the Dneison reserves is the key to Ontario Hydro's bargaining position now and in the future".

Mr. Schwartz: Absolutely, and we're going to come back to that. Now, while, on the one hand, you had Ontario Hydro doing some of the things that the Chairman has pointed out to us and getting their team to examine all this, on the other hand, you had no specific people in the government of Ontario looking at that alternative, either alone or together with Ontario Hydro. They played no role in that examination. While they recognized the obligation by Ontario Hydro to study this alternative, they just obviously felt no parallel obligation on the government to get involved in any way, either by doing their own or by having some input into the study being done by Ontario Hydro. Now, under that, on the Ontario Hydro side, we have come to the end of Project Wellesley; and we will talk about the details in a few minutes, but . . .

Ms. Gigantes: That was the end?

Mr. Schwartz: No, it was not. They come and have a document called Project Wellesley and on the Ontario Hydro side they made a business decision on receipt of the facts; I would like to talk about that a little bit. The report

was presented to the Hydro board in August 1975. In July 1975 there occurred the price break in the negotiations with the producers.

Ms. Gigantes: You're not saying the board had a copy of the report?

Mr. Schwartz: No, no. It's clear that they did not, but the report, the synthesis, whatever you want to call it, was first discussed at that time, in August 1975. Now about a month earlier that price break had occurred.

Mr. Chairman: When did the break occur with Preston?

Mr. Fisher: We were told it was in the spring of 1975—whenever the spring is.

Mr. Schwartz: Before that time. So that was the first thing that happened. Prior to the board getting this report, on the one hand you had the price break. There was still—and I'm really quoting now, from Mr. Taylor's evidence and putting together bits into hopefully a cohesive thing—what else was happening in August. There was concern raised that Ontario Hydro would be required to deal at arm's length with Denison because they couldn't obtain 100 per cent of the shares. There was still serious doubt that they could acquire the shares at an attractive price. There was serious doubt at that time expressed that the price suggested in Project Wellesley was realistic, because it was felt by many of the people that the major shareholders in Denison would recognize the value of those shares just as well as Ontario Hydro did and that it wouldn't be just only Ontario Hydro who had figured out through their clever calculations just what it was worth to them to get the shares in the way that is outlined in Project Wellesley, the shares which give them the uranium of Denison, but that someone at Denison would be almost as clever and be able to do the same calculations.

When all that was happening at that time and there were some other concerns—and we're going to get back to that in a few minutes—while all that was happening because of the price break and because of the fact that the contract negotiations were not completed, I think that the board shelved the project—they did not reject it, they shelved it—in order to monitor the progress of the contract negotiations. They did this so that at the end they could have something to weigh it against. They would have something very definite to be able to weigh the acquisition route against.

On December 13, 1976, the contracts were approved after an examination of the terms along with an examination of an update that Hydro got, a bit of an update of the Project Wellesley numbers—and I'm going to come back to that in a few minutes. But before I get to that, I think before I get to some of the other business decisions, and other factors that may have influenced Ontario Hydro when they considered it—both the first time and again the second time, and they have been added the second time—I think it's fair for us to say what was happening on the government's side at that time. What we know is that the Minister of Energy, in February 1975, was aware of Project Wellesley. He was aware that it had been completed in the summer of 1975. But at that time he apparently did not ask for and did not receive a briefing. He didn't receive a briefing until December, 1976. That's a long time.

In December, 1976—December 6, I think—this briefing took place. That was 15 months after completion of the original Project Wellesley documents. It sat around for 15 months before the minister was briefed for the first time. The briefing was given to the minister by the Ontario Hydro staff as a result of the request by the minister which he made sometime in early October of 1976. There are several points that are worth noting for us.

The briefing was a review of the terms and conditions of the Denison contract. That's what they were briefing about. The minister pointed out during that briefing, according to the notes, that he expected Hydro to be able to identify very clearly its reasons for choosing one alternative over another. According to the notes, again, he emphasized that "the question of purchase or expropriation may again be raised, at which time it will be necessary to be clear for the reasons for not doing so". That was 15 months after the original thing came on.

During this briefing on December 6, 1976, 15 months later, the actual document—the actual Project Wellesley document—was not made available to the minister. He apparently didn't request that it should be made available. The current minister, Mr. Baetz, said that this procedure is something that he wouldn't personally find acceptable. He would have asked for it. Although, he also added that he was convinced that nothing would have been changed even if Mr. Timbrell had read the report. He also stated—this is Mr. Baetz—"to have studied it and then to have concluded that Hydro management was wrong in rejecting the report and going a different route; I have an idea that that is almost interference in management. I think it is". Even if, for the moment, we accept Mr. Baetz as being totally correct—that it is interference with management—we also have to look at a comment made by Mr. Rowan.

By letter of December 21, 1976, Ontario Hydro made application for an order-in-council for the Denison contract. Mr. Rowan said to us, and I'm quoting:

"It seems to me that the responsibility was transferred at that point . . ."—that is the point where they requested the order-in-council, I assume—"from Ontario Hydro Board to the Minister of Energy. He had to assess the reasons given by the Hydro Board for choosing one alternative over the other and he had to confirm whether the route chosen by the Hydro Board confirmed with the government's performance".

"I think that's very important too, because if the Hydro board had decided to go other than the contract route, then it is quite possible that the government might have initiated a detailed review of all of the alternatives to see whether, in fact, the Hydro board's recommendation was the best one in terms of public policy, because the public policy of the government at that time, and today, is to pursue contracts with the private sector".

That little exchange in those quotes that I've read to you and this whole scenario that I have built up, and that we have talked about at some length with this committee, raises a whole host of questions about the role of the government and the Ontario Hydro Board, and the relationship of one to the other; and I don't think that at this time we as a staff are ready to shed any more light on this, other than to say that you can see how important that

topic is and it is a topic that you as a committee may want to get into a little later on in your deliberations. But for now the real question is what does it mean; and what it means is—the evidence is quite clear—the Ontario Hydro Board's decision coincided with the preconceived views of government. That was their policy, that was the approach they wanted to take, and so they didn't have too much trouble with it. It would have received closer attention, if they hadn't agreed; in other words if Hydro had determined that they wanted to purchase the mines we suddenly would have found that the topic was worth close scrutiny by the government of Ontario, because it wouldn't have met their idea of the proper general approach to how you do this in the right or wrong way. What it may mean is that they could make the wrong decision, their information could have been all wrong, but if the conclusion is "right", we won't have to determine what information they used to come to the conclusion. It's a funny way in my view, I think in our view, it's a funny way to do things. On top of all that, we're left with the final question that I think it just begs completely; and that is how much was the final decision of the Ontario Hydro Board impacted by their knowledge of the preconceived preference of the government of Ontario? I think that it is kind of a circular kind of question. I don't think it is possible for us to give an absolute answer on it, but I think it is clear, and we're going to talk about it a little more, that there is that circular thing and how much influence it had on the Board I can't guess.

Ms. Gigantes: I have one other thing. I think it is important to note at this period in time, the period you are discussing, that the study Project Wellesley was only half done. That was part one. Part two never got touched.

Mr. Schwartz: Yes.

Mr. Fisher: Oh, well just a second there. Part two was not an addition to the study. Part two was writing up the background papers and calculations and putting them in an orderly pile.

Mr. Schwartz: It was the calculations that showed how the numbers in Part one were arrived at. So that's what it was. Those numbers—you can just imagine—were scattered in thousands of piles and hundred of pieces of paper, and they just didn't compile them into a neat orderly thing so that you could say "this number on page 6; the compilation was done as so" and termed part two. That's what part two was about.

Mr. Fisher: Okay.

Ms. Gigantes: There was no . . .

Mr. Schwartz: And Mr. Nastich gave, I think, a fairly clear explanation as to why they didn't do that. He thought at that time they were finished.

Ms. Gigantes: It wasn't worth it.

Mr. Schwartz: When they shelved the report at that time, they weren't worrying about the numbers as much as thinking about how are we going to deal with the contract, and I think Hydro, as you know, is kind of stretched at times, and they didn't think that this was a useful thing to do with their

personnel. Now you may disagree with that. They took their personnel off for that reason.

If you look back at all of what was happening in 1975, I guess you could make a case and say that Hydro did absolutely the right thing; but still the government didn't do the right thing, for a variety of reasons. Maybe they should have accepted it, and if they didn't accept it maybe they should have known a little more clearly why they weren't going to purchase alternative, why they weren't pursuing that more vigorously. Now I think the first thing we could look at are possible reasons for the Hydro rejection, and I think a few minutes ago I gave you a few that Mr. Taylor outlined quite clearly for the committee. There are a few others, which I think have to be added to that, and which I think we have to assess as fairly as we can to make a reasoned judgment on whether the right thing was done at that time. Hydro was just adding the chemical business to its concerns at about that time, and as you are all going to find out this summer Hydro was suddenly confronted with a challenge that I'm not sure it particularly relished, as a result at least in part of actions by AECL over which it didn't have total control. They were suddenly getting into a whole new ballgame, the business of the heavy water. At the same time, there was clearer and clearer recognition at that time of the fantastic burden that that capital program places on the province of Ontario. On top of that, it was all happening at a time of announced government restraint. I think the people in Hydro were aware of all that. They couldn't help but be.

The other thing that I think we have to think about in relation to that is this whole question of Hydro is suddenly into another new ballgame. The reason that all this is important is that all these things are starting to happen to this corporation almost simultaneously. There really is a question as to whether you can manage efficiently if it's all happening too quickly and whether there isn't, from a business point of view, good reason to not get into new areas if you can help it because so many new areas are being imposed on you in any event and you wouldn't want to get into too much and you wouldn't want to get in over your head.

You can recall this question of public scrutiny at that time. We noted it in the final report of the select committee of this Legislature. At just about the time when that select committee first met, way back in October of 1975, Hydro had just completed its second public hearing before the Ontario Energy Board dealing with its rate increases, and these public hearings continue annually. It was just becoming extensively involved in the public hearing before the Royal Commission on Electric Power planning, and those hearings are still continuing and may continue for a long time from now. Its generation sites and transmission line routes were under constant public scrutiny. Public scrutiny becomes an issue and they were faced with that, and that takes more time and more energy and it's just another thing they have to do. It was also preparing at that time, the time when they had to make these kinds of decisions, for a major hearing into a proposed new rate structure which will have terrific impact on the province of Ontario. I can tell you that those hearings which began many, many months ago, are still going before the Ontario Energy Board as we sit here and deliberate on this other topic, and the information I now have, heaven forbid, is that they're going to be going well into next fall.

All I'm saying is, on top of all these other problems, they're suddenly put into a whole new world of public accountability. They're suddenly faced with a whole new world where the public is saying, "What is going on"? It requires certain resources in the corporation to deal with all that. It just is. I think the public was getting from Ontario Hydro, at that time, and still is, I guess, enormous expenditures of time and money and energy in that regard. Whether we like what they told us or not, or thought they could have done it better, I think nobody argues with the fact that they were scurrying about at a pretty frantic pace, particularly at the beginning, because, like anything else, when it's new, it's even more confusing. Now they're more into the rhythm of it and they can probably handle it better, but I think it really was a major concern at that time.

Finally, really could they ever be sure of continuous government backing if they were going out to try and purchase the mine from Denison when they knew that the government was kind of lukewarm to the idea? What effect did that have on them? I think they just had to think about how that would impact on their ability. It's sort of a catch 22. You know, what is the impact of the government's preconceived view? Was it a view that helped mold the decision of the board in any way? I just don't know and perhaps will never know. But I think there are a couple of things when you think about that whole relationship that you should note.

The first is, shortly after the Ontario Hydro board shelved Project Wellesley—that is in August 1975 when they looked at it and shelved it for the reasons we discussed—the Ontario Cabinet reiterated its preference that Ontario Hydro continue to pursue its long-term contractual route. So that was happening.

I should also point out in the letter of December 21, 1976, to the Hon. Dennis Timbrell, Mr. Taylor states, in reference to the government's preference for long-term contracts, "based on the board's own deliberations, and the government's views, Hydro's efforts were then directed towards bringing contract negotiations to a conclusion". So who knows how important the government view was?

On the other hand, I think you have to say, to be fair to Mr. Taylor and to be fair to all the players in this game, that Mr. Taylor said emphatically and very clearly: "I, and the board, did what we independently thought was right. And if anybody had been pushing us to do otherwise I would have had to seriously consider my role as chairman". I think he made that point in a fairly straightforward and strong way.

In the end the Ontario Hydro board, as is their duty, weighed all of the factors; and they weighed the factors we talked about in the slide before and I guess they weighed the factors that we brought up here as possible reasons for rejection, and made the decision that it believed, I think the Ontario Hydro board did believe, was in the public interest. I think they did what they considered was honestly in the best public interest. And in so doing they brought the collective wisdom of that board of directors to bear. Whether you disagree or agree with the final decision that they made, I think it is certainly the view of your staff that they carried out—that is Ontario Hydro

and its board—their duties in a proper manner. They did their job. They did it in a responsible manner.

On the other hand, we have to just look at the other side of that chart and say why would the Government of Ontario not have gone for buying the mine—like maybe it was a good thing.

First of all they could have done several things. Hydro didn't have to purchase it. The government could have somehow got it through maybe the Ontario Energy Corporation; made that corporation do something a little more than it is doing now. It may have—and I have to stress may have—resulted in an important change in position for the Government of Ontario when it was dealing with the federal government in trying to get them to change their policy. And it may have provided a substantial economic benefit to the Ontario electricity consumers. All that is true; all those things may have happened. Although I have to say again that is something you would be able to know, you would be able to determine when you determine what they would realistically buy it for.

If that was the case—if the last situation on this page was clearly the case—let me at least make it clear to this committee that your staff has absolutely no ideological problem with the government of Ontario or the Ontario Energy Corporation or Ontario Hydro if the legislation was changed, buying a uranium mine. We just don't approach it—we don't have any philosophical difficulty with that.

I think that is something we want you to keep in mind as we go through the rest of this page on the purchase alternative.

One of the things about the purchase alternative is that it really does have emotional appeal. I think it really does, and you can't deny that. The emotional appeal though, from our point of view, is hard to balance with the, sort of, hard facts of this particular case at this particular time. I think that is the approach that we as a staff are obliged to look at it from. And that is how we tried.

The first side is the supposed benefits—and we have what we call the realities on the other side. If you buy the mine, you are ensuring the public receives the profits from Ontario's resources—and who can argue with that? We don't want a rip-off. Nobody wants windfall profits. Let's just say we all agree on that.

From our point of view, the reality of all this is that what you're going to be doing if you purchase the mine in 1978 is you're going to be prepaying those profits to the current owners of Denison unless you strike some fabulous bargain which, from our perspective, is inconceivable. So our first thing to say about this is: "If you don't want them to make the money over 35 years, why in God's name are you going to give it all to them, or a good chunk of it to them, tomorrow"?

The second point about that is, and it's related, there is no net economic benefit to us unless we strike a bargain in this deal.

We're going to talk about it a little again, but we in this province, when it comes to purchasing that resource, are in no special position. I think when we have to make a hard-headed decision about whether on February 28th, we approve these contracts as being in the public interest, we had better face up to the fact that whether we like it or not or find it acceptable or not, we are not in a special position vis-à-vis purchasing that resource. If we're not, are we going to get a bargain? Why would we think we would?

When we go back to the benefits of purchasing, it will ensure full public control of the uranium mine. I guess that is a benefit. But the contracts we have tied up—certainly on the Preston thing, without any question; it ties up everything. That's all there is and there isn't any more.

Mr. Kerrio: On the Denison?

Mr. Schwartz: On the Preston one. On the Denison one it is quite likely that we are tying up all of the production capabilities that can be milked from that particular ore body. If we aren't, we're certainly tying up a very great deal of it for the next 34 years.

If we take over the mine, if the province takes over the mine, we're going to ensure that it's operated in a very responsible way in terms of the safety of miners, in terms of environmental considerations. We're going to look after that. But none of those considerations are considerations which, if we really have the will to do, we can't do through legislation. If we want to do it and if it's something that we, as a province, say we are committed to, you don't have to own the mine to do that.

Finally, the issue that we can ensure the mine is operated for Hydro's benefit. In the Preston case, as I said, we're churning out what they've got. In the Denison case, while we've talked about the grades changing, it's changing because we're getting the ore when we're getting it. Maybe the smart thing would have been to enter into these contracts five years ago, but we didn't and we don't have them. At the time that we are going to be getting deliveries, we won't be getting a different grade than the Japanese are getting at that time. In 1984, the Japanese and Ontario Hydro will be getting essentially the same ore from the same spot. It's just that we're not getting what's available now and by 1984, as Jim explained, we'll be down perhaps to another level of mining.

The other thing: The reality is, if you buy it, it does add a further sunk-cost to be amortized if the quantities have to be curtailed. These are incredibly well-drafted and flexible contracts which allow us the opportunity of getting out under a variety of circumstances at what I think is overall fairly cheap insurance. On the other hand, if you own it, and you don't need any of it, if you don't need a portion of that uranium, and one alternative that we talked about in relation to the other, the free one, the profit alternative is removed, we can't sell it on the world market for some reason. We can't. We're stuck with it. We've got it sitting there and I don't know what we'll do with it. So I think that is a disadvantage.

Jim is going to tell something about some of the numbers involved in this, because as soon as I get a number I get tongue-tied and Evelyn asks me a question that I don't know the answer to.

Mr. Fisher: Okay, what we tried to do on page 29, though, is say: "Forget all that". Supposing you don't agree with all those arguments that there isn't very much of a benefit to it. Let's suppose you want to buy it anyway, and how do the economics, the basic economics of the purchase look today, as compared to the other times that it was looked at. What we did was we got Hydro to do a new run, which is that third column, in February 1978, and added some of our own calculations to say how does the purchase alternative look today. What we have, just to say what it is, we are showing the value of the uranium asset, that's based on all those discounts of future cash flows, which I am going to talk to in a minute because they're important to understand what's in that. The number looks harder than it is. Then we'll take the highest market price, and as we pointed out before, the curious thing about that, when you look at the price range, is that the price range of the stock hasn't really changed much over this whole period that we have been talking about. So that we end up with a market value at the high, which is just multiplying by the number of shares, and you get a difference between the value of the uranium assets and the market value which is that gap that we have always talked about in which you would negotiate, and you could say that you could pay up to that much over the market and end up in the same position.

I think what it amounts to, when you find out the assumptions, is an incredible coincidence of numbers, in that the basic economics, based on the way they do the calculations, have really not changed over what amounts to almost three years. In 1975, the difference is \$384 million; December '76 it's \$364 million; February of 1978, it's \$365 million. Within the range that we are talking about, it's the same number. I think that you have to bear in mind, though, how much these numbers are estimates. Every single number in these is an estimate and it's based on top of assumptions on top of judgments. Some of the key assumptions are Dr. Robertson's estimate of costs. That hasn't changed from '76 and you have to still say: are his estimates of costs right, which you don't know. The next thing that's in there that's important is that there is Hydro's economist's estimate of inflation, and the effect that inflation will have on costs at Elliot Lake. There again you've got different assumptions that have gone into it. The third key assumption is that there is a guess at world price and where on earth is world price going to be in the future?

You'll recall in the Project Wellesley, the guess was that it was going to start at 20, and then it went up on a slope to 40 and then it stayed steady from there on in real terms. In 1976, the assumption was that the price would be at \$40 U.S., and stay there in real terms. In 1978, because the price hasn't moved in actual dollars, not real dollars; if it had gone up in 1976 dollars it would probably be in the \$50 range today, but it hasn't moved in fact. Still in U.S. dollars; I understand the latest quote is \$43 U.S. But, whatever, let's say it's still in that same range of \$40/\$42, and when they did this we had them use the number of \$40 U.S. as the base on which the thing would go. So it's a guess; where is the price going to go? Is it going to go up or down, or where is it going to go?

A fourth area of guessing is the contract terms to the Japanese or to the other suppliers and what are they; and nobody knows what those contracts actually are, but the major part of the net present value are those dollars that you get in the next 10 or 12 years on the foreign sales.

And finally, you have to bear in mind it's not a guess, it's a number that is used to take all these cash flows that go on for the next 34 years and reduce them to a single number, we used a thing called a discount rate; and a discount rate is a very funny thing on which there are volumes of books written on all the problems of using a discount rate. But without going into the volumes, in 1975 they used 11 per cent as a discount rate, for reasons; in 1976 they used 12 per cent. We had them use 10 per cent. We could have used any number; and in the exhibit in which this thing is done, in the numbers they have given us, the difference is if you use 10 per cent this number of 638 is the value, if you use 12 per cent it falls to \$526 million. So I mean they're numbers and they have an awful lot of validity because there's not enough zeroes on the end of them I guess. You say \$638—it looks like a very accurate precise number. It's a real guess and there's no way of knowing. The other side of it is that it's Hydro's guess or it's a guess of a group of people in Hydro. That's not necessarily Denison's guess. Denison may have completely different guesses about what's going to happen to cost, what's going to happen to inflation. They are the only ones who know for sure what's in their other contracts. By May their number could be completely different, up or down from these numbers. So you've got to approach these numbers with a lot of caution. They are just not hard at all. But with all those cautions I think you should be aware that if you want to pursue the purchase alternative, the economics based on all these assumptions just haven't changed. The numbers have stayed the same and the thing is as good a buy now, given the assumptions, as it was then—maybe better because you know a little more.

One of the things we looked at, which is on the next page, is what difference does it make to the purchase option if the contracts are approved and signed or they are not? I think it is a key consideration for deciding what you do.

First of all, the assets have a higher value at world price than at contract price. Now as you can see the difference is not enormous. It's \$48 million and the reason that that number is not that large in relation to what it was when some of the numbers were run previously is because the world price assumptions that we used in our February 1978 run are lower in real dollars than they were before. So that the gap between the base price and the world price isn't that large, and since that is cut in half by the contract you're talking about half of a relatively small number. Then you're discounting it from 1985 to the year 2010 and so on—so in the end it's not a big difference in terms of the economics of it. The reason we think it is important to bear that number in mind, however, is that if you don't sign the contracts and you try to do some kind of expropriation or purchase, it would seem reasonable to us for the buyer to value his company on the basis of a world price—on the basis of his opportunity price for selling uranium. "You wouldn't sell to me under my contract. You didn't like it. My assets are worth so much". We think that's where he would start.

The second condition is that unless 100 per cent of the shares are purchased, and I guess it's our view that if you're going to be realistic, the only way you could get that is if you expropriate; that's the only way you could be sure of getting 100 per cent. That means you would have to convince the federal government to do the expropriation for you. But if you can't do

that, if you have to do a share purchase, we would end up with minority shares and shareholders who would have a right to insist that their relationship be arm's-length, that there be no favoured terms and it may be that the fair market value of the exchange would have to be world price. Now that's not necessarily true. One could say that we had an arrangement before that was halfway and so maybe you could do that. At this point it is unclear what you could do about that, but I think it is at least a possibility that you would have objections from some minority shareholders that they had been dealt with unfairly by having a discount on what they might say was a fair value of their ore.

Ms. Gigantes: Just a question on that. If you're dealing at arm's-length with minority shareholders, is it possible to treat them as a special group in terms of dividends.

Mr. Schwartz: No. The minority shareholder has a right to have the company run in the best interest of the company and I can't say it any more clearly. They can say "if I was"—I have to be careful—I was going to say that "if I were running a company this is how I would do it". It's not quite that simple because there are different approaches to different problems. But in the general sense of the word you would have to do what is best for the company, do something for their benefit.

Ms. Gigantes: Suppose you were running the company so that you were giving a special price to Ontario Hydro for its uranium; could you say to the minority shareholders, "We will give you dividends on your share so that you would receive as much payback as if we had sold at a world price".

Mr. Schwartz: It's not only the dividends on the shares that a minority shareholder has. It's his whole interest in the company. If by doing that you are deteriorating the financial stability of the company, you are impacting on his rights. So he's not just concerned with getting his dividend once a year, he's concerned with the whole financial structure of the corporation. I think the answer is likely, "No".

Ms. Gigantes: When we're talking, then, about purchase, are we talking about purchasing the mining company? Are we talking about purchasing Denison?

Mr. Schwartz: We're talking about a purchase, really, in the sense that it was outlined in Project Wellesley. I think the purchase of Denison is out, purchasing all of Denison is just so ludicrous as to be out of the question. It just can't happen. The dollar figures involved would be absolutely astronomical. You would be owning oil in the Aegean Sea and coal in British Columbia. I think when we were talking about purchasing, we were thinking about the type of arrangement which, by the way, would require a great deal of co-operation from Denison, but the type of arrangement which would, in fact, set up a new company and really allow you to purchase the shares in such a manner that you ended up with owning their uranium company. That's what we're talking about; the uranium mines.

Ms. Gigantes: Okay.

Mr. Fisher: The third point is this problem of negotiating with Denison's major owner. I think the fact of the shareholding is if you didn't reach terms with Denison's major shareholder, there would be no purchase. He has to purchase only a relatively few shares compared with what you'd have to purchase in order to get effective control. So you've got one man that you've got to buy out. It's a negotiation. If you don't purchase it—or if you don't approve the contracts and you try and get into that negotiating process instead—it's our view that you're putting yourself in a very tough negotiating position. The seller has already said his company isn't for sale and that's a negotiating position, one can say, but at least he sure staked out a pretty tough one as a start.

The second thing is, if you look at what Denison is doing and their whole strategy of where they want to be in the energy business, this is a sort of solid, stable base to it, which, it appears to us, would have some value to them; and they would not be willing sellers of that base of earning. It's a basis for a lot of financing.

The third thing is that it appeared to us, anyway, that the tension that would exist between buyer and seller in this would make the negotiations extremely difficult. I think the major shareholder would consider that he has not been given a fair hand from the beginning, that he's made his concessions, he's done his thing. "You are trying to buy me secretly, you are trying to do stuff to me with Ottawa. I'm not going to be a very co-operative seller". So I think what we've got on the one hand is the prospect of dealing with a very unhappy, very unwilling seller. Which is not to say that there is not some price at which you can get him, but he is an unwilling seller. On the other side, you would have Ontario Hydro or the government in the position where it is getting farther and farther down the road without tying up—(Lights fail in the committee room.) Hydro goes farther and farther down the road without having tied up substantial quantities of uranium for the mid 1980s. It's going farther and farther down the road, where the expansion project isn't going ahead. Possibly, it's going farther and farther down the road where Denison will have been starting to make contracts with other people, taking the uranium out from under your feet anyway so you end up buying it and you don't end up owning uranium anyway because it's all contracted out.

Ms. Gigantes: Who are they going to sell it to?

Mr. Fisher: They're going to sell to whoever wants to buy it. They're going to sell it to TVA.

Ms. Gigantes: The federal government is going to allow them to ship out their 30 per cent?

Mr. Fisher: It would be hard to say what the federal government's position could be. On what grounds would they prevent them from doing so?

Ms. Gigantes: On the grounds that they haven't met their reserve requirements for domestic use.

Mr. Fisher: No, they can leave that in the ground, that's not a problem. As you know, under the terms of the federal guidelines, they in fact can sell the whole 126 million pounds, this whole thing, to the year 2011, and there is enough left in the ground to satisfy the current federal requirements. That's done. Now, I think it is fair to say that the federal government probably exerts more control than their guidelines on the face of it would leave you to believe.

But here you have a position where Denison did break on the price, where the federal government does think the price concession they gave was reasonable; they did offer to sell far more than they had to and Ontario Hydro turned them down—or Ontario Hydro didn't, the government turned them down. I don't know what position the federal government takes; sure, probably they wouldn't let them sell the whole thing but maybe another contract for another 40 million pounds out of there; maybe the next level, that two million extra pounds they start (inaudible) in 1984. I don't know. We are all just flipping coins in the air; there is no way of knowing what they would do. But it would appear that Denison would have not a bad case for saying there is no basis for your denying us the right to export this stuff; it's already been turned down.

All it seems to us it does is it gives you the prospect, if there were no approved contracts, of an anxious buyer on the one hand and a very unwilling seller on the other hand; and that is not the best way to enter into a negotiation on price because that is what it will be, at what price will you sell it?

Mr. Schwartz: I should also just add to that—I think Mr. MacIntosh alluded to this—it is a hell of a position to be in, to start negotiating the purchase and expect a bargain when Denison, or anybody else for that matter but we are looking at Denison, knows what your cards are. I mean, through the work of this committee and other things, Denison knows exactly what this is worth to Ontario Hydro, to the government, to anybody. There is no reason on earth to believe that they wouldn't be cognizant of that when they were negotiating. That's the way the game gets played out there. I can tell you I'd hate like hell to be a lawyer who had to do the negotiating to get it from Denison under those circumstances, it would be a very difficult task, it just would be.

Mr. Fisher: The last point which we would just throw out for you is that given that condition, which we think you'd be in, where you would have to be exerting all possible influence and energy to try and close this negotiation with Denison, which would be very tough, that it would in effect foreclose what we think just might be an equally attractive alternative and that is to go after Rio Algom rather than Denison.

Now, theoretically there is no reason why you are foreclosed; you could do both. I think in practical terms, in terms of the dollars you would be talking about and in terms of the energy that you're talking about, it is probably not reasonable to assume that you'd carry on the two negotiations at once. But if you look at Rio Algom just on the surface, they have larger reserves, they've got reserves that are not yet committed to anyone, whereas Denison, until you get down to about a pound a ton, are all tied up—they are all sold to somebody—and there is a possibility at least that Rio Algom's

owners may not have the same emotional problems of dealing with you that Denison's major owner has. That is not to say Rio Algoma's owners are going to be a willing seller either. You'd be dealing with Rio Tinto Zinc. It would be a professional purchase from a professional company. It is hard to say that is, on the surface, a less attractive acquisition than Denison. It seems to us that if you could just take the pressure off yourself in terms of looking at those, by approving the contracts and getting that set, you've still got a lot of years to pursue one or the other or both or do what you like.

Mr. Schwartz: I think overall in this whole issue of alternatives, our conclusions are, under the purchase alternative, that the government of Ontario has failed during those several years that we've covered, 1973 through 1975, to really appreciate the possible public policy attractions of purchasing a major producer. They never really took the option seriously enough from our perspective. I can't add anything to the facts that we've already talked about.

Hydro's decision may well have been correct within their perspective but it is possible that they were wrong on some broader grounds. Perhaps that's where the government really has a responsibility to have monitored a decision of that importance more carefully.

It's difficult to say whether that has any impact on where we would have ended up today. Maybe you could say, even if it didn't it's just not a very admirable way of carrying on. Maybe there was just a better way of carrying on.

The third one is, from our perspective, unless there is some way that we can be shown that the purchase will be made at a substantial discount from its economic value, we just don't see, at this point in time, any real public benefit from owning Denison, not one that you can in any way really measure. I think that when we say that I should say something about some of Jim's earlier comments.

The Denison people are a private corporation. It's kind of interesting to think about us entering into real willing-buyer, willing-seller negotiations with them because, in the end, if we want to acquire it, that's the real alternative. They have staggered through the bad times in the uranium industry and sat with that uranium. Nobody wanted it.

Mr. Reed: The feds helped them out.

Mr. Schwartz: The feds helped them out. But it also is true that they weren't exactly one of the most prosperous companies on earth at that moment. But the point is that they did get through the bad times, et cetera, and you've got to look at it from their perspective. We're talking about the guy who you've asked to sell it to you now. They are in the midst of a fairly recent broad diversification program, as Jim said. They're into oil and gas and coal. They've been in it for a while but they're expanding. They're becoming a more diversified energy company. I think that Jim really hit it on the head when he said it's just inconceivable that you will take the heart of a diversified energy company, which is the uranium components, which is what they are known for, what they're comfortable with and what they have, and cut it out of the company. So that while they're getting into these other ventures, there

is some importance to them, from a corporate point of view, of having some stability, of having that uranium. The only thing that this goes to is it just seems to us to be another one of the reasons why you would have to think when you're talking about the purchase of that asset from Denison, of the mine from assets, through getting the shares, that it has another value that they may see in it when they're dealing with you.

In any case, I think the bottom line for us is that approving these contracts, first of all, doesn't foreclose you after you've got the contracts from trying to buy that particular bit from Denison. In any event, it seems to us that it strengthens the government's hand generally in approaching the purchase alternative as a real alternative if it becomes necessary to buy more uranium for this province. One can guess that it's possible that will happen. We may require more uranium. We won't have to pursue a purchase under terrible panic, with awful deadlines, worrying about not being able to meet production schedules in the mid 1980s, worrying about what happens if we miss. What happens if we can't purchase Denison, if they just won't sell it? What do we have then? Nothing? So we are left with a more solid base with which we can pursue, from our perspective, a very real alternative. I think it's an alternative that we see as real and maybe if the Committee does it can make its views known. The Committee may see it as real, and Ontario Hydro certainly doesn't exclude acquisition a possibility. So that's where we come down on this purchase possibility.

The final thing we want to look at, and we will try to go a little quicker, is the domestic protection question. This is the final area where we have heard—well we may get some help for the public because we will ensure that it receives appropriate benefits from its resource. That is a good sentence; everybody likes it; how can you possibly not agree with that. And the way we are going to do it is through some sort of domestic user pricing system, and we are going to get the federal government to change their guidelines, they are going to help us out.

Mr. Haggerty: They are what? He wants to have it down on paper.

Mr. Schwartz: The things we are going to be doing in the section generally is, we are going to look at what we consider the weaknesses in the current guideline system. We are going to talk about the actions and the inactions of the Government of Canada. We are going to talk about what, from our perspective is the impact of approving the contracts on this possible solution.

The first thing I think we want to look at is the current protection that is offered to the public in the province by this system. We are in a curious position in Ontario, and I think we have all alluded to that and it is true. We are the country's largest user of uranium at this moment. We are also the province with the largest known reserves in Canada. And that seems to be a sort of a convenient and important relationship. But we really do have absolutely no control of our uranium resources. And you are sick and tired of hearing about section 17—and I won't remind you, but it is there. We don't have control and that is the reality. For all the complaining we just don't have it.

There is also absolutely not the slightest sign whatsoever that the Government of Canada is willing to give up any of the jurisdiction it has in this area. As you know, there is a revision to the Act which if anything appears to be taking a little more power for the federal government, although one could argue about that, but it certainly isn't giving any away. When Dr. Runnals was here I asked him, "Is the federal government in any way open to allowing some control to rest with the provincial government over its own uranium or its own energy production". And I would like to quote Dr. Runnals' answer, because I think it is kind of important. First he is a humble civil servant. "I, of course, cannot speak for the government. I can speak personally. I think the question you have asked, of course, is one which has exercised the minds of ministers at the mines and ministers' meetings year by year. My impression of the results of these discussions is that the answer to your question would be no".

I think it was Bob Nixon who said: "That is not surprising. Once government gets its hands on jurisdiction of something it is not easy for it to give up". It is just not something that it does. I think the reality that we have here is although we are the largest user and we have the largest known resource base, we just do not have control, and there is very little likelihood that we are going to get any. I would say the likelihood is zero.

That means we have to rely on the federal government. I think I am just going quickly to go over what those guidelines are.

The guidelines essentially require each company to maintain a domestic uranium allocation of some sort. How do they get to that total? Sufficient uranium must be reserved to enable each domestic nuclear reactor operating or planned for operation ten years into the future, to run for 30 years at an average annual capacity factor of 80 per cent. That is the calculation they use.

Just as an example, as of January 1, 1977, it was forecast that reactors totalling something over 16 gigawatts would be operating in 1987. They then calculate the number of tons of U_3O_8 that those reactors will require for their 30-year lifetime. That is how they get to this domestic allocation number. The guidelines also require that the domestic utilities maintain a contracted 15-year forward supply for their operating and committed reactors. That's the other side of it.

I should also point out that the government of Canada will only approve export contracts for 10 years. I noticed somebody say, "Gee, if uranium is so important, why do people not buy it for longer terms from Canada"? It's because they will only get it for 10 years with conditional approval, subject to partial recall for a further five years. Now, we know that there's this domestic allocation and we know that it's calculated according to this number that I just gave you. The responsibility for that allocation, for the domestic allocation, is divided among all the companies that are marketing uranium in proportion to their individual share of Canada's total uranium resources. That's a fairly simple concept, I think.

Now the estimate of resources is made annually by the federal government. They decide what we've got. Originally when they were doing that, resources mineable up to twice the world market price were estimated. That's what

they included. But I think probably as a result of the rapid escalation in prices for uranium, they now use a 1.5 times bench mark to measure it against. As a result of that kind of a calculation, just because of the particular figures as to what we forecast is around, et cetera, the mining industry is asked to retain, this year, a little over 21 per cent of its reserves for supplying Canadian users. That's the way it works.

Of our known reserves, there is a certain percentage every year which is already committed for export. It just is. I think the number is something over 20 per cent at this moment in Canada. There's still the remainder—whatever that is—that is available for export or for what we want.

What does all this do? As Jim told you, it is possible under this system for Denison to sell all of the uranium that they are going to sell to Ontario Hydro for export and still say, "We meet our own domestic allocation. It's in the ground and it's sitting there". I covered this question about how they're protected. It's theoretically up to twice the world price, but in practice it's 1.5 really and that comes out to \$60 per pound. It is possible under this allocation system that we have, because the government sees Canada as a whole and not each province as a separate entity, that all the uranium in Ontario can be sold away if the producers have uranium in other provinces and we're left with buying it from the other provinces, maybe through Saskatchewan, which is the other province that has got a bit of it and through their royalty scheme. We'll back and talk about the royalty scheme in a minute. The other thing about it is, under their policy, the way they can protect us at the end—they do have a great protection—they will interrupt previously committed contracts, previously approved long-term relationships with our trading partners. They will do it. All export contracts are subject to annual approval under the Export and Import Permits Act, and exports in any year will not be approved if there is inadequate domestic production. On the other hand, let me tell you that that is a very serious thing. I don't have any doubt the government of Canada will do it if they have to, but nobody wants to be put into that position. There are many good public policy reasons why you would not want to have to tell the Japanese, the Spanish or anyone else on earth that you have trading relationships with, "Well, we've got to cut off this year because we didn't take care of ourselves properly".

On the other hand, let me tell you that when somebody enters into a contract in Canada, when a foreign buyer buys uranium in Canada, they are told as part of the agreement that these are subject to review every year and it is possible you will be cut off if we need it. I can't imagine anybody believes that it'll really happen, but they are told that it is possible.

Mr. Kerrio: Al, in your interpretation of this policy, the protection in the ground really has no relationship at all to any contracts, does it?

Mr. Schwartz: No.

Mr. Kerrio: Not at all.

Mr. Schwartz: I'm going to talk in a minute about that and how it relates to production price. I know that's different.

From our perspective, neither government here can be particularly proud of how it's handling this aspect of the problem. Both governments recognize the need for protection and both have a different view of how it should be done. I think we should look at what each government has done. First, I would like to look at the first two facts we have under the government of Canada. They issued guidelines that offered the least problems to producers, it is not a very difficult thing for the producers to meet, on the hope there will be some cooperation and we'll all be able to work it out because we're all friends in the end, and also with recognition that, as Jim said, the guidelines are there but I think the government of Canada influences these negotiations in a way which isn't spelled out in the guidelines.

Everybody is looking over their shoulder and they know that you can't really sell it all and leave Ontario Hydro with nothing. It just is not conceivable that it could happen. The guidelines themselves have several stated objectives. The first is to ensure long-term domestic supply for our reactors. We know that. That's what they say it's for. It's to allow sufficient uranium production capacity to be built to help us out. It's to contribute, from the federal government's point of view, to what they consider an orderly world uranium development. It's to increase the economic return to Canada from the exports we get and through the processing that we manage to do in Canada to help our balance of payments, it does at that. And also you get from the guidelines, and we don't have to get involved with that, but they also deal, of course, with an attempt to prevent the proliferation of nuclear weapons, but let's just leave that. Now, an integral part of this program is to ensure domestic supply. I mean why else would we have it? In the view of the government of Canada, the exporting of uranium will attract new and necessary venture capital to sustain the exploration necessary to meet future needs. That is their position. They are saying we don't, for a variety of reasons we in Canada, don't have all the capital necessary to do all the exploration necessary to find all the uranium necessary. Because of that we are anxious for foreign investors to invest money in exploration activities in Canada. It's good for the country, for whatever reasons they think it's good for the country.

If you take that view, and I think it is fair to say the government of Canada does, it is also equally important to ensure that they are going to export some. Nobody's going to come in here and spend their money looking for the uranium if they know they can't get some of the uranium out that they found. Just in that regard, I don't want to really get into it, but you—I won't bother reading the letter, but there is a letter of July 18, 1975, that is written to Doug Gordon, the president of Hydro, from Mr. McNab in Ottawa. He just makes it very, very clear that that's what the government of Canada is thinking about, and I think it is worth your while to look at that letter.

The second thing is (you haven't missed a thing, Bob) the second thing is that the government of Canada has admitted to inadequacies in the domestic supply—that should be "protection", there is a typo, we just can't get away without one. They just admitted there are some problems, and I think Vince brought some of them out very well, and I would like to try to bring them out in one spot. First of all we have a reserve allocation rather than having a reserve allocation and reserve production method of ensuring supply.

It is allocation because a production allocation to be fair to producers in the view of the federal government, would require the mines to have a longer lifetime than the reserve period over which the protection period applies. And this is generally not the case. As a result we are told that the federal government has found it impossible to dream up a production allocation formula. They may be right, but I can tell you that it's not very convincing. It's just not very convincing; and I think it is incumbent upon us to press as much as we can that a production allocation formula be pushed in to the reserve allocation formula that we now have. It's just not a convincing argument. It may be that when we go to discuss it with them, they may just absolutely dazzle us with the facts but so far we're not dazzled; we're just not.

The second thing that you might notice about the terrific protection we have in Canada is that these two contracts signed by Ontario Hydro represents 9,000 short tons more than the entire domestic reserve allocation set aside in the year 1976. I think this alone has to force a serious rethinking of the guideline. What impact does that have on Hydro Quebec, or on N.B. Power? There's something lacking in the guidelines.

The other thing is that I'm not entirely convinced—if we look at the guidelines and we've talked about them—that the current guidelines are really going to be sufficient in every way 10 years from now. I think the federal government recognizes that and says: "Yes, we are wrestling with the problem". I don't know what that means. But they're wrestling.

Just think of this example. The way we are set up today, if a producer five years from the end of the economic life of his uranium mine comes up and says: "I have a domestic allocation, it's all in the ground there. I'm now five years from the end of the useful life of my mine, I've offered it for sale to all the buyers, the potential buyers in Canada and nobody wants it". That's a possible situation. In the year that happens, nobody is in a position where they have to contract for uranium. The producer can then apply to the Atomic Energy Control Board and say: "I've asked, and nobody wants it. Can I sell off my domestic allocation, please"? The way the rules now stand, the Atomic Energy Control Board can very well approve for export what was until that day a protected quantity under our domestic allocation system. There is something very wrong with that; so that there are just a series of serious problems with how this whole system has been set up by the government of Canada. I think that in between all the other pages, you could find that Dr. Runnalls recognized that in those areas there are serious problems, problems that I think we, as a province, have to bring to the attention of the government of Canada and where we should be fighting for change.

The third thing about the actions of the government of Canada is that they have repeatedly said that they see no need for protecting the domestic users on price. I don't want to get into this because it's getting late; ad nauseum we can talk about it. But just going back way into 1974, going through Exhibit 35, looking at the letter of the Hon. Alastair Gillespie in, I guess, November, and looking at the last document, I think Exhibit 59 that we tabled today, it has been the clear and consistent policy of the government of Canada that they will not provide a two-price system. They just won't do it. We may not like it but that's what they told us and I think we may not

think that the provincial government went after them hard enough but the reality is that's what they told us consistently for years, including two or three days ago in the document which we tabled this morning.

I don't think that it is really fair for me to suggest that that policy is inconsistent with any of the other energy strategies being adopted by the government of Canada. As Dr. Runnalls told us when he was before us, from the government's point of view there are good public policy reasons, strong public policy reasons for selling the uranium at world price and for not initiating the two-price system.

That's what we've got from the government of Canada. On the one hand, a reserve system that has the kind of problems—three very specific problems that we've pointed out to you and—on the other hand, on the price side, essentially a statement to look out for yourself folks because we're not helping you.

As citizens of Ontario, I think that's kind of hard to swallow. It may be, of course, that the government of Canada can make their argument that it's for the good of the rest of the country and they just don't worry about us and that's fine; but it is hard to swallow when you're sitting in Ontario and turning on the lights.

What about the government of Ontario itself? They have carried on this letter exchange for several years with the Government of Canada. On top of that they have had some meetings where they have made their views clear, I guess. On top of that Ontario Hydro has said on occasion, "We would like some protection".

I don't think Jim and I can pretend that we are experts in the best way governments handle these kind of problems. But it is abundantly clear that lying back reading the newspapers everyday, I didn't have a great sense that the Government of Ontario was beating down the doors of the Government of Canada asking for something special on this uranium thing.

On the other hand, as the Premier stated this morning—I guess to be fair to them—it has been the consistent view of the Government of Ontario over the past few years that two-priced energy is appropriate. I don't know where you draw the line between that. I just leave that for you. But when we say this, it comes to our second point. Should you really be tying the sort of two-tiered system for uranium to the two-tiered system for other energy sources when you know that argument hasn't gone anywhere for years and is unlikely to go anywhere for the next ten years? Should you be doing that? That really is the question you have to be asking yourselves.

In our view, possibly the strongest argument somebody could come up with for saying "Do not approve these contracts, they are not in the public interest", is that non-approval will apply more pressure to the federal government to change its policies; for a couple of reasons.

First: approval of the contracts may be seen by the federal government to be our approval of their terms. Why should we change our policy? You guys just signed the contract—you must be happy.

Secondly: the quantities involved take this pressure off the producers in getting their export permits.

Third: a unanimous rejection of the contracts by all parties in the committee, and endorsed in the Legislature, may be—and I emphasize may be—a powerful force for the Government of Canada to reckon with.

We are going to come stampeding forward, led by Bob Nixon; I know it.

I must say the Government of Canada may still not intervene. That is a real possibility. We may scare them and we may go running up to their front door in Ottawa and yell and scream. But there is absolutely nothing that we have seen that indicates there is the slightest possibility that the Government of Canada will change its view. We are just not convinced that there is a real chance that they are going to do it; and I guess the topping on the cake was that lovely letter from the Hon. Alastair Gillespie that was tabled this morning.

First of all, it would be a pretty funny sort of case to argue that there was failure of negotiation; because when the federal government talked about failure of negotiation they were talking about it in terms of the producer and the buyer—Ontario Hydro. I think it is clear that Ontario Hydro and the suppliers have reached an agreement.

Two ministers of energy in this province have approved it and said; “We think it is a pretty good deal”.

The other points are—when we talked to the federal government about this, when Dr. Runnalls was here—in all the contacts you've had throughout with the federal government, all the documents you look at in Exhibit 35, there isn't the slightest indication that they are moving that way; and are we just really sort of throwing it to the wind by expecting that they will suddenly change?

The final thing is that we do think it is consistent with their approach to energy generally, and they will and can make arguments about how it really is for the best interests of Canada—and we in Ontario are not Canada, we are just one part of this country. But even if the federal government intervenes—and I was kind of surprised to see this in Mr. Gillespie's letter this morning—first of all, the pricing terms may be no better at all. Finally, we get them to intervene and institute a two-price system; why on earth would we assume that if they did that—and I think getting to that step is very difficult, but if we got there—why would we assume that the pricing system would be better. And Gillespie in his letter just came out and said it, “Even if we did it, don't bet that it will be better”.

Mr. Nixon: Maybe he's not worried about losing all the seats in Ontario.

Mr. Schwartz: Maybe he's not. I don't know.

Mr. Samis: He may not have a job six months from now.

Mr. Schwartz: Now the federal government senior adviser on uranium, Dr. Runnalls has come here and he has told us that in his view these contracts are terrific ones. They also know that there are lots of consultants in this area who have come and said they think that these are good contracts. It's just in our view not very likely that all of this is going to happen while we can talk about it.

Finally you know it's just an absolute abdication at this point to the federal government. "We can't handle it, folks, so you do it". We won't count on the bargaining abilities and persuasive abilities of Ontario Hydro and perhaps of the government of Ontario; we'll instead rely on a two-price system by the federal government which may be worse than what we can do under our own bargaining. We will take away the one thing we've got left: the ability to get out and do what I guess Hydro did, which is to do some tough bargaining. We'll just remove it, because we now have arbitrarily got a two-price system which may force us to buy it at higher price.

Ms. Gigantes: How would we be surrendering our control?

Mr. Schwartz: Well, because you see right now there is no two-price system. There is no stated price for which we must buy uranium in Canada. There is no domestic price for it. Because of that we are able to go out and bargain. We struck a bargain. Now I'm using "bargain" in the broad sense of the word. We have arrived at a price through negotiation. If the federal government applies a two-tier price system, we've lost that ability.

Ms. Gigantes: What you're suggesting is that if we say we're not going to do anything, we're waiting for the federal government to institute a two-price . . .

Mr. Schwartz: And they do.

Ms. Gigantes: Surely we're not going to say that. That's a straw man, isn't it?

Mr. Schwartz: That's something, I guess, the committee will talk about tomorrow. I don't know. I'm not guessing what's a straw man for everybody in the room. I think what we're trying to do is to deal with all the issues that were raised during the hearing, and that's an issue that was raised: Let's do that; let's wait for the federal government.

Ms. Gigantes: To do that as one thing.

Mr. Schwartz: Yes, that's right. Now to us, the risk of applying this added pressure of not signing the contracts because of the federal government just doesn't seem worth it and, I must tell you, to us it is just downright silly.

First of all, the federal government might simply not respond and in fact the overwhelming evidence before us is that it will not respond. Even if they do respond, the pricing may not be any better; it may be worse and then we're stuck with it. If the pricing is better, we may get into the situation of whether the producers are willing to sell us that much. Are they going to sell us a smaller quantity while waiting for another change from another government?

Ms. Gigantes: You're assuming that we'll do nothing but wait for the feds to do something.

Mr. Schwartz: Well, we're talking about just doing that, that's right, and not signing the contract or pursuing any other viable alternative.

Ms. Gigantes: Where is this risk? What time period do you consider the risk apply over?

Mr. Schwartz: Well, we're going to talk about that at the end. I don't want to jump ahead. But in essence what we are going to be saying in a few minutes is that after February 28 you start losing those options. That's the time period. We'll try to explain why that happens when we get there.

Mr. Fisher: All we're saying in that third point really is that if you decided not to approve the contracts and go ahead and put pressure on the federal government . . .

Ms. Gigantes: That's all you do?

Mr. Fisher: Well, I'm saying just taking that approach.

Ms. Gigantes: Come on.

Mr. Schwartz: We're giving each one separately. Don't forget we are going through several alternatives; we're giving each one separately. You may end up with a wonderful combination of all of them, but we don't want to prejudge any of that and we're trying to deal with them one by one.

Ms. Gigantes: I don't think you can. That's the point I make.

Mr. Schwartz: Okay that's good. I think that is what we'll be talking about tomorrow.

Mr. Fisher: Just let me finish the point. The point is that you still have to do a contract in the end, even if you were successful in having the federal government change its policy and give you price protection.

Ms. Gigantes: We would still have to do a contract even with these contracts because we're still short of uranium by 1990.

Mr. Fisher: That's right. But you would have to do it with these producers. You'd have to negotiate again, and there are a lot of terms other than price that would still be open, like quantity, delivery, and flexibility.

Ms. Gigantes: There are two terms that you're talking about, two time terms.

Mr. Schwartz: In our view, the best approach is to approve the contracts. First of all, it gives the province de facto control over all of this uranium immediately. It leaves the province open, at that time presumably with the full support of the Legislature, to go after the government of Canada and do what it can and put economic control of Ontario uranium in the hands of Ontario. We can do that.

Mr. Haggerty: How can you do that?

Mr. Schwartz: To answer your question, it really—if you look back at the other things we've said, we can just add to this and say—and we're going to deal with that—signing the contracts leaves us open, in our view, to put in an excess tax. It doesn't stop us. It leaves us open to follow the acquisition route. It doesn't stop us. It leaves us open to follow this route of going after the guidelines and changing them. All of those things are not foreclosed by any means, and any combination is still available to you. From our perspective—I don't want to jump ahead, but I just believe in it.

The other thing that I think is important, that we all recognize is that if we do achieve price protection, sometime out in the future—the federal government changes its mind—, several things are possible. First of all it may not help because the price may be higher than the price under these contracts and then we'll look awfully silly. There'll be a two-price system but we'll be under it. If—if—there is a two-price system instituted by the Government of Canada, and the domestic price is less than the price under these contracts, you have lost nothing because the legislation of the federal government would override the price in the contract and would become the price. It would be the price at which deliveries would have to be made. You could not sell it in Canada for more. So by signing the contracts, you've lost absolutely nothing.

Mr. Nixon: Except the leverage on the federal government to do something about it, which you've already dealt with.

Mr. Schwartz: Yes, that's right. I think then, I'll just let Jim make a few comments about February 28 and really what is awaiting us.

Mr. Fisher: Given that it is 12 minutes to 6:00, I'll make even fewer comments than I might have about the deadline, February 28, and our view that there would be risks in not approving the contracts by February 28.

The first thing is—and we'll talk about these—is that in our view, if the contracts are not approved by the government of Ontario, Denison will withdraw its offer. The second thing is that in our view, Hydro will have a great deal of trouble renegotiating as favourable a contract with Denison or anyone else if you don't change the leverage position. It's very unlikely that you'll get as good a contract, whatever you think of this contract. The third is, we don't know where you would go to get as significant amount of uranium at a discount from world price. Your options are limited.

As we said, it's our opinion that Denison will withdraw its offer on February 28. First, it has almost put itself in a position where it would be so embarrassing for it not to that it would have to. The president made an unequivocal statement to the committee that on February 28 it's over. The chairman of Denison made an unequivocal statement to his shareholders that after February 28 the offer is over. It's hard to conceive how they would not go ahead and withdraw on February 28 after those two statements.

Do you want to do this—the legal stuff, that they do have the right to do it?

Mr. Schwartz: Yes. It's not quite worded right in our slide, but there is a clause in the agreement which dictates essentially that if the order-in-council is not made on or before the 28th day of February the agreement is void and of no further legal effect. It's there. Somebody raised—so they've got the right to do it, it's the legal right, and one could even argue that they had the moral right, because it was open for all this time, but I think that's an irrelevant issue. They've just got the right to do it.

An issue was raised for us that provincial governments in Canada have power to intervene in contracts, and I just thought it would be important for us to say something about that. It is clear that in Canada the Legislature has power to intervene with vested rights so far as property is concerned. It usually shocks people to learn how unfettered the power of the Legislature is. They can get in and tear up contracts.

Mr. Nixon: It's awesome.

Mr. Schwartz: It really is. And when somebody comes from a country where they have a written constitution, for example, and you explain that, they are quite stunned by it. But while I say that, and the question was raised on this issue of whether we can change the contract around and extend the date. Can we extend the February 28 date? It is equally clear that this Legislature has absolutely no power to extend this February 28 deadline unilaterally, however, it's worded.

Mr. Nixon: Simply because it's a contract dealing with uranium?

Mr. Schwartz: Yes, I'm going to get to it. However, it's worded, really what we would be doing, what the Legislature would be doing by extending the date, it would unilaterally be controlling a significant portion of the production and sale capabilities of Denison from its Elliot Lake mines. The enactment of the law in imposing such a control, even if one forgets the morality of all that, is clearly ultra vires of the jurisdiction of this province. I just have absolutely no doubt in my mind that because of all the other discussions that we've had, they couldn't do it.

Ms. Gigantes: May I ask you now in this context to comment on page 6 of Mr. Donegan's latest review of the province's property rights in the designated areas of the Denison contract. In point five, section B, he said—he's obviously left his mind open, on review—"However, on the assumption that the province can terminate the licences of occupation, approximately 44 per cent of the total area of the designated area would revert to the province if the province refuses to renew life leases and if the province terminated the licences of occupation".

Mr. Schwartz: Now what is your question?

Ms. Gigantes: How do you relate that to what you're saying?

Mr. Schwartz: I don't, because I'd have to read that and read the letter and then tell you. I don't really know. Taking it out of context I could not give you a very helpful answer. But what I will do with it is look at it after this is over and I'll answer you tomorrow morning.

Ms. Gigantes: I consider it pretty important. He's done a review for us based on questions here in committee.

Mr. Schwartz: Yes, I understand that. I don't know how it relates to what I'm saying but I will tell you that it will not derogate from what I'm saying because I'm quite clear on what my view of the law is in this area. I'll have to just get to that and I'll try and answer it for you.

Mr. Fisher: I think that the third thing that leads us to say that Denison would withdraw is that Denison does have an obligation to its shareholders. At this particular time in the world when utilities are trying to close uranium deals, it's the time to sell if you've got anything to sell. We know that the Elliot Lake reserves are known. They're known around the world for what they are. They're one of the largest delineated bodies. It's an attractive ore body for a utility to get a piece of and they would be remiss in their obligations if they didn't try to close some of those contracts that are around.

Finally, although it's not on here, isn't it clear that the best negotiating posture for Denison in any subsequent dealings with governments of any kind would be to withdraw its obligations on March 1. If that's the case, it seems to us that if we put Hydro in the position of having to go back after February 28 to Denison to renegotiate, and we haven't been able to get any of our additional leverage, it's going to be very tough to do a deal—very, very tough.

Ms. Gigantes: Without renewing licences of occupations?

Mr. Schwartz: You're referring back to the letter?

Ms. Gigantes: Yes.

Mr. Schwartz: I'm going to have to look at that. I don't know what context this letter, or that piece of the letter, is. I don't remember. We'll deal with that tomorrow morning.

Mr. Fisher: I don't think it's necessary to go into this. We've gone into it in enough detail. The mind-set that we assume the major shareholders of Denison must have, or the management of Denison must have, about the problems of negotiating with Ontario Hydro and what they've done and what the government's done to them, and the whole thing here, I think would be a very tough negotiation unless we can find some additional leverage points. Again it's the question that any delay is going to be a problem in terms of getting the capital construction under way and getting the benefit of it when it comes; and you also have to say it's a problem of when you are going to get those jobs in Elliot Lake. They start in earnest when you sign the contracts and get things under way. Do you want to talk about the cost problem?

Mr. Schwartz: If Denison remains an unwilling seller, it's after February 28 and we have no contract at this point, we either have to go back to Denison, and certainly not be in as strong a position; if they don't want to sell or we can't get it, where are we going to go. I mean I think that that is the final question that we have to come to grips with. What are we going to do? Now we have been told we can go to Saskatchewan and buy some uranium from Saskatchewan. I think there are two things we have to say about that.

Last year the government of Saskatchewan, as you probably all know, put a moratorium on all mine development permits, new ones, while it held a public inquiry into further development.

They are still awaiting the report of the inquiry Chairman, Mr. Justice Bayda, who was asked to report by November 1977 and as far as I know he shows no sign of releasing his report quite yet. So we don't know, really, what the future holds in a general sense out there; let alone even if he approves it and everybody gets into the act, how quickly it will take us to get production facilities up to snuff.

The other thing that we should know, though, is that there is a royalty scheme that in our view clearly contemplates that all sales of Saskatchewan uranium will be at world price. I don't want to get into a whole thing, but they have got a little document which is in essence the province of Saskatchewan regulation which controls this matter, and in section 99, and section 99 (g) (4) in particular, the royalty payer, the producer, if he and the minister can't agree on a fair price for the uranium he has sold, regardless of the price he's actually sold it at, the minister shall notify the royalty payer in writing of the price the minister considers to be fair value of the uranium and such price that the minister determined is fair value shall be deemed to be the sale price for the purpose of determining the gross sales of the royalty payer.

I think it is fairly clear that the Government of Saskatchewan at this point, for its own reasons, and those reasons, we don't like it here in Ontario, but they may be perfectly valid for the Government of Saskatchewan considers that uranium taken out of the ground in Saskatchewan and sold by producers in Saskatchewan will be sold at the world price. In fact, they don't say to you sell it at the world price. If you walked in and said are you forcing supplier to sell at world price, the answer is no you can sell it at whatever price he'd like, but he is going to pay taxes as though it was on world price.

Ms. Gigantes: Why is it so attractive to Amok?

Mr. Schwartz: It's attractive to them because they don't mind paying—that's the issue in fact. Nobody at this point is too concerned about paying world price. They just want the supply.

Ms. Gigantes: They will make profit on it too.

Mr. Schwartz: Yes; oh sure.

Mr. Fisher: There's a thing about Amok though that you have to bear in mind. One is that Amok got into the exploration before all this royalty business and the inquiry started, so who knows what they might have done if they started over again. The second point about Amok is, it is my understanding that Amok is a consortia and in the consortia are utilities, the French nuclear utilities. Whatever the profit level, what they are doing and what's happening in utilities all over the place, Uinerz is the same way, they are trying to assure supply and price isn't really the issue, it's assurance of supply. So they have reasons why they would, even knowing, that you would carry on and go where you can go to get it. And you end up paying the world price and if you get a return on your exploration investment so much the better.

Mr. Schwartz: Well, you will all breathe a huge sigh of relief, the few of you who are left, we are on our last page.

Mr. Chairman: Alan, I have breathed a sigh of relief, the gavel is in the hands of Mr. Nixon.

Mr. Fisher: The last page, as the Chairman wends his way out of the room, just says, "Why would the committee want to go beyond February 28. Whether you think the contract should be approved or not, does the committee want to carry its deliberations on after February 28?"

In our view, the committee was asked to confirm that entering into the above agreements is in the public interest of Ontario. That is what you are asked to do. It is our view that the Committee has heard enough information, that you would know by now whether you do want to do that or you don't want to do that.

First, I think, all the details of the contracts have been pulled and torn apart by lots of different people. On the alternatives there are certainly lots to go—there are lots of things you could do on the alternatives. But in our view, there is enough information on the alternatives to decide if any of them are preferable or practical. I think there is also enough information for you to make up your mind whether anything is changed by approving or not approving the contracts.

In our view, the only thing you could really go into which might add to something would be further investigations about all the various contacts and pressures that brought the parties to an agreement. And I think that would be kind of interesting to do; it would be fascinating. In our view, it doesn't change the contract conditions or the alternatives. It is just interesting.

So what we come down to in the end is to say; "It is time to make up your mind". There has been a lot of information put on the table and a decision is possible at this time.

Mr. Schwartz: I guess we will talk about this tomorrow at the end of our deliberations. But I think, given this public responsibility that has been thrust upon us, one way or another; and given the question—"Is it in the public interest"? —from our perspective, as your staff, and from my perspective as your counsel, I think it is incumbent upon us to say: "Yes it is in the public interest, or no it isn't in the public interest for the following reasons". But I think if we are to ensure protection of the public interest—if that is what we are talking about—if we approve the contract—if the committee determine the contracts ought to be approved, I think it should say why, and why it is in the public interest, even though you may have a lot of problems with parts of it, or that we are in this bind. I think you have to bring all that out. It is the best we could do because we can't do any better. If you don't think that Orders-in-Council approving it ought to be forthcoming, I think we also have an obligation, as a committee, to say; "It is not in the public interest to issue these Orders-in-Council, and here is what is specifically in the public interest, and what will protect the public in this province". I think that is

something we will have to deal with, and that all of you will deal with tomorrow while Jim and I sit down and rest and watch you do it.

So now it's your turn.

Mr. Acting Chairman Mr. Nixon: Eight o'clock in the morning.

The committee adjourned at 5:58 p.m.

MEMBERS OF SELECT COMMITTEE

MR. D. C. MACDONALD — Chairman

MR. G. ASHE

MR. J. A. BELANGER

MR. J. F. FOULDS

MS. E. GIGANTES

MR. R. HAGGERTY

MR. T. JONES

MR. V. KERRIO

MR. N. G. LELUK

MR. R. K. MCNEIL

MR. R. F. NIXON — Vice-Chairman

MR. J. REED (Halton-Burlington)

MR. G. SAMIS

MR. J. WILLIAMS

Counsel: Mr. Alan M. Schwartz, Siegal, Fogler

Consultant: Mr. J. D. Fisher, Canada Consulting Group, Toronto

Clerk: Mr. A. Richardson

APPENDIX E

SUMMARY AND RECOMMENDATIONS
OF THE STAFF TO
THE SELECT COMMITTEE ON HYDRO AFFAIRS
INVESTIGATING
ONTARIO HYDRO'S URANIUM CONTRACTS WITH
DENISON AND PRESTON

February 20, 1978

THE PURPOSES OF THIS PRESENTATION ARE TO:

1. Summarize and synthesize the essential evidence presented to the Committee in:
 - § 28 Committee meetings involving 40 different witnesses
 - § Nearly 60 exhibits involving numerous documents and 3-3/4 pounds of contracts
2. Present our conclusion on the issuing of Orders-in-Council approving the contracts and the recommendations we think the Committee might usefully make to the Legislature

OVERALL WE HAVE CONCLUDED THAT ORDERS-IN-COUNCIL APPROVING THE CONTRACTS ARE IN THE BEST PUBLIC INTEREST FOR FOUR BROAD REASONS THAT WE WILL ELABORATE IN THE BALANCE OF THIS PRESENTATION

- I It makes sense to tie up substantial quantities of Elliot Lake uranium for Ontario's needs
- II The contracts themselves are a reasonable balance of interest between Ontario Hydro and the producers
- III Approving the contracts does not foreclose any further steps to ensure the Ontario public receives appropriate benefits from its uranium resources
- IV There are substantial and unnecessary risks to the Ontario public in not approving the contracts by February 28

I. Elliot Lake Reserves

IT IS IN THE BEST PUBLIC INTEREST TO TIE UP ELLIOT LAKE RESERVES FOR
ONTARIO'S NEEDS

1. The quantities contracted for appear reasonable, especially when coupled with the flexibility provisions of the contract
2. Under most forecasts of future uranium markets a long term commitment to Elliot Lake appears sound
3. There are good reasons for making the purchases in Ontario

WE WILL DEAL WITH EACH IN TURN

- I. Elliot Lake Reserves
 1. Reasonable Quantities

ONTARIO HYDRO WILL NEED SIZEABLE QUANTITIES OF URANIUM IN THE NEXT FORTY-TWO YEARS

1. The 156 million pound estimate for all reactors up to Darlington appears reasonable
2. But under LRF 48A Ontario Hydro will need over 450 million pounds* during the contract period just for reactors planned up to the year 2000
3. Or if there are no more reactors but those up to Darlington have a 40 year life, the need will be for over 200 million pounds*.
4. Even if LRF 48A is stretched out considerably, there will still be a need for quantities of uranium in excess of 200 million pounds

* - Staff estimates

- I. Elliot Lake Reserves
 1. Reasonable Quantities

BUT, IF THERE ARE NO MORE REACTORS, AND CURRENT AND COMMITTED REACTORS IN FACT HAVE ONLY A 30 YEAR LIFE, THERE WILL BE A SURPLUS

Amounts under Denison & Preston contract	198 million pounds
Basic Need	156 million pounds
Less:	
Current contracts	<u>13</u> million pounds
	<u>143</u> million pounds
	<u>55</u> million pounds
MINIMUM EXCESS	
Plus:	
	10 million pounds
Possible additional contracts in eighties	
	<u>65</u> million pounds
MAXIMUM EXCESS	

- I. Elliot Lake Reserves
 1. Reasonable Quantities

UNDER THESE CONTRACTS, THE SURPLUS CAN BE ELIMINATED BY EXERCISING
THE CURTAILMENT PROVISIONS

1. Under most world market conditions the surplus will be saleable, possibly even at a profit
2. If the surpluses are not saleable, there is flexibility in the contracts to reduce the commitment
 - § The Preston contract would be cancelled
 - § The Denison contract would be curtailed by 10%
3. If the surpluses are anticipated early enough, the 10 million pound shortfall in the eighties could be met by borrowing from the federal stockpile and repaying from surplus to reduce the cancellation costs

* - Hydro calculation

1. Elliot Lake Reserves
2. Forecasts Favour Commitment

THE COMMITTEE HAS BEEN PRESENTED WITH THREE GROUPS OF FORECASTS. UNDER THE FIRST TWO SECURING LONG TERM SUPPLY AT A PROTECTED PRICE IS CLEARLY IN THE BEST INTEREST OF THE ONTARIO PUBLIC

FORECAST	FORECASTER	PRICE EFFECT	IMPLICATION FOR HYDRO
Great scarcity of uranium appearing between 1990 and 2000	Robertson	U3 08 could easily reach \$100 in current dollars	Need to secure supply is paramount
Supply will be tight but adequate and prices controlled by government	Hogerton, Johnson Donovan, Rodis, Neely, Steyn	Price should fluctuate around current level, escalate with inflation	Securing supply below world price is prudent
There will be plenty of uranium at lower cost than Elliot Lake and price will eventually be broken	Ball, Moss	Price could drop as low as \$20 in current dollars	No need to have such long-term commitments

1. Elliot Lake Reserves
2. Forecasts Favour Commitment

BECAUSE OF THE LONG TERM NATURE OF THE CONTRACTS, THE FORECAST TO BE CONCERNED ABOUT IS THE THIRD

FORECASTER	BASIS OF FORECAST	COMMENTS
Gordon Ball	<ul style="list-style-type: none"> - Nuclear station development has fallen - Consumption rates are overstated 	<ul style="list-style-type: none"> - Taken into account by moderate group - By not taking into account enriching cycle, consumption estimate was only 20% of actual
Peter Moss (CRI)	<ul style="list-style-type: none"> - Uranium is a young mineral, more will be found - New finds have been cheaper than the deep Elliot Lake reserves 	<ul style="list-style-type: none"> - Moderates do assume substantial finds - Still felt there will be no major price break until nineties - Key, eventually, may be a breaking of government controls of export prices

1. Elliot Lake Reserves
2. Forecasts Favour Commitment

THERE ARE TWO IMPORTANT THINGS TO CONSIDER ABOUT THE THIRD FORECAST:

1. If the forecast is right, then:

§ There are provisions in both contracts to get out if the world price is substantially lower for a sustained period of time

§ And, if one believes this forecast then the "projected profit" to the producers is substantially lower

§ Unless the world price is substantially below the base price, it may well be in Ontario's interest to maintain Elliot Lake

2. If the forecast is wrong, then:

§ There may be no protection from a world price contract, especially if the purchases had to be made outside Ontario

§ Protection of supply may then depend on forcing the Federal government to interrupt a long-term supply relationship with an important trading partner

- I. Elliot Lake Reserves
- 3. Buy Ontario

FINALLY, IT MAKES GOOD SENSE TO US TO BE BUYING IN ONTARIO

- 1. Minimizes potential supply disruptions
- 2. Creates 2,500 new mining jobs in Northern Ontario
- 3. Creates a potential tax stream with a present value to Ontario of almost \$650 million
- 4. Appears to be the only place to buy substantial quantities at a discount from world price
- 5. Gives the Government of Ontario "de facto" control of two of Ontario's uranium mines

I. Elliot Lake Reserves

THEREFORE WE HAVE CONCLUDED THAT IT IS IN THE PUBLIC INTEREST TO TIE UP
ELLIOT LAKE'S URANIUM RESERVES FOR ONTARIO HYDRO

1. The quantities appear reasonable - well below the maximum need, above the minimum but with curtailment possibilities
2. Under most forecasts the cost of the Elliot Lake reserves will be below the world price and there is substantial risk in following the maverick view
3. Unless there is an enormous drop in world price and a complete change in world supply availability, Ontario is best served by developing its own production

OUR NEXT SET OF COMMENTS ARE ON THE CONTRACTS THEMSELVES

- I It makes sense to tie up substantial quantities of Elliot Lake uranium for Ontario's needs

- II The contracts themselves are a reasonable balance of interest between Ontario Hydro and the producers

- III Approving the contracts does not foreclose any further steps to ensure the Ontario public receives appropriate benefits from its uranium resources

- IV There are substantial and unnecessary risks to the Ontario public in not approving the contracts by February 28

II. Contract Terms

THE CONTRACTS CONTAIN A NUMBER OF PROVISIONS THAT APPEARED UNUSUAL
AND DIFFICULT, FOR EXAMPLE

UNUSUAL & DIFFICULT TERMS . . .	TURNED OUT TO BE NOT SO UNUSUAL UNDER THE CIRCUMSTANCES
Hydro had to make substantial interest free capital advances	<p>Has become a common practice in the uranium industry</p> <p>A negotiated price that is meant to equate to a world price is becoming common in the uranium industry (although without a discount) and is, in fact, being insisted upon by governments in many producing jurisdictions</p>

II. Contract Terms

AS WELL, WE HAVE TO ACCEPT THE FACT THAT THE CONTRACTS ARE THE RESULT OF NEGOTIATION - NOT ALL THE TERMS AND CONDITIONS ARE EXACTLY WHAT WE MIGHT HAVE WANTED

1. It would have been better to have been able to eliminate any reference to world price and relate the price to cost plus a reasonable profit
2. It would have been better to have the interest paid by the suppliers and included in the base price
3. It proved impossible to find a fully satisfactory definition of the negotiated price
4. It would have been better to have higher production in the eighties
5. It would have been better to have eliminated the price protection clause from the Denison contract

II. Contract Terms

BUT THE CONTRACTS ALSO OFFER SUBSTANTIAL BENEFITS FOR HYDRO

1. They contain a number of features that should help to control costs
 - § By direct incentive if negotiated price is above the world price
 - § By participating in management decision making, and by auditing the costs, under all conditions
2. They offer a good deal of downward flexibility
 - § The Preston contract can be curtailed or cancelled, for any reason, on five years notice
 - § The Denison contract can be curtailed, temporarily or permanently, and can be cancelled if the world price is below the base price for five years
 - § Under both contracts surpluses can be resold

IN RECOGNIZING THE CONTRACTS AS NEGOTIATED COMPROMISES, WE CANNOT
IGNORE THE LIMITATIONS ON HYDRO'S POSITION

1. Hydro needs the uranium
 - § To fuel its \$14 billion investment
 - § To provide base load generation beyond the physical limitations on fossil fuel importation
 - § To provide electricity at the lowest feasible cost
2. The producers have other options
 - § The negotiation took place during the period when utilities were starting to scramble for assured supply and the market price was rapidly climbing
3. There is limited protection under the Federal guidelines
 - § Hydro had to buy; the producers did not have to sell

II. Contract Terms

IN CONCLUSION THEN, BEFORE CONSIDERING ANY OTHER MECHANISMS WHICH MAY FURTHER PROTECT THE PUBLIC INTEREST, WE VIEW THE CONTRACTS AS A REASONABLE BALANCE BETWEEN THE COMPETING INTERESTS OF HYDRO AND THE PRODUCERS

1. The price is a balance between the producer's responsibility to get the highest price possible and Hydro's responsibility to produce electricity at the lowest feasible cost
2. The quantities and financing are a balance between Hydro's desire for secure supply but with flexibility to reduce deliveries and the producer's consequent need for capital protection

BUT THIS COMMITTEE - UNLIKE HYDRO - HAS A BROADER RANGE OF ALTERNATIVES
AVAILABLE TO IT THAT WE WILL LOOK AT NOW

- I It makes sense to tie up substantial quantities of Elliot Lake uranium for Ontario's needs
- II The contracts themselves are a reasonable balance of interest between Ontario Hydro and the producers
- III Approving the contracts does not foreclose any further steps to ensure the Ontario public receives appropriate benefits from its uranium resources
- IV There are substantial and unnecessary risks to the Ontario public in not approving the contracts by February 28

III. The Alternatives

THIS COMMITTEE HAS BEEN CONCERNED THAT THROUGH THESE CONTRACTS THE PRODUCERS MAY EARN EXCESSIVE PROFITS AT THE EXPENSE OF THE PUBLIC

THREE APPROACHES HAVE BEEN SUGGESTED FOR REDRESSING ANY IMBALANCE

1. Through a special provincial tax on uranium mining
2. Through owning the assets and realizing the profits directly
3. Through a Uranium Supply Board that would provide domestic users with uranium at a price based on a cost related formula (including a "reasonable" profit)

III. The Alternatives

EACH APPROACH HAS JURISDICTIONAL IMPLICATIONS AND DIFFERENT EFFECTS ON
THE PUBLIC AND THE ELECTRICITY CONSUMER

APPROACH	JURISDICTIONAL IMPLICATIONS	EFFECTS
Special Tax	Can be imposed by province to apply to all uranium mining	Higher cost to electric user. Benefit to the general tax payer
Ownership	Nationalization can only be done by the Government of Canada Purchase can be accomplished by the Province	No necessary benefit to electric consumer. Public benefit through the purchasing agency
Domestic Price Protection	Totally within federal jurisdiction	Lower cost for electricity consumer in Canada

III. The Alternatives

IN THE BALANCE OF THIS SECTION WE WILL OFFER OUR VIEWS ON TWO ASPECTS OF EACH APPROACH

1. What conclusions can be drawn about the actions to date of the Federal Government, the Provincial Government and Ontario Hydro?
2. What are the implications today for each approach if the contracts are approved?

III. The Alternatives
1. Special Tax

THE GOVERNMENT OF ONTARIO'S CASE FOR A SPECIAL "EXCESS PROFITS" TAX WAS
UNCONVINCING

ON THE ONE HAND

§ There is evidence that the Government did realize that the taxing power was available if the producer price was too high

§ And the new Minister of Energy stated a willingness to act

BUT ON THE OTHER HAND

§ No one had even thought through the broad outlines of such a tax

§ Seems inconceivable that this Government could approve these contracts without qualification and then develop a special tax because of "excess profit" that they would create

§ And the willingness only appeared after several Committee members had publicly stated an interest in a special tax

- III. The Alternatives
 - 1. Special Tax

BUT THERE SHOULD BE NO PROBLEM FOR THIS COMMITTEE

IF IT THINKS THE CONTRACTS ARE SATISFACTORY EXCEPT FOR "EXCESS PROFITS" IT CAN RECOMMEND:

§ Approval of the contracts on the condition that:

§ The Government develop and present to the Legislature a taxing scheme for uranium mining

- III. The Alternatives
 - 1. Special Tax

IN CONSIDERING THIS APPROACH THE COMMITTEE MUST CONSIDER HOWEVER
THAT

- 1. "Excessive" profits, if they do occur will not begin until 1984 at the earliest
- 2. There is no way to bind the Government of 1984 to any particular taxing system
- 3. The strongest action the Committee can realistically hope to achieve is to have all parties of the Legislature support the concept of a special tax as guidance for that Government of the future

- III. The Alternatives
- 2. Purchase

THIS BRINGS US TO THE SECOND BASIC MECHANISM OF ALLOWING THE PUBLIC TO SHARE IN THE BENEFITS OF ONTARIO'S URANIUM RESOURCES: BY PURCHASING ONE OR MORE URANIUM PRODUCERS

WE WILL SHOW THAT

- 1. The Government of Ontario took a casual approach to the purchase alternative
- 2. The purchase option is always available if the Committee or the Government still wants to pursue it
- 3. But a positive result is more likely to be achieved if the contracts are approved

III. The Alternatives
 2. Purchase

THE GOVERNMENT'S CASUAL APPROACH TO THE PURCHASE ALTERNATIVE CAN BE MOST CLEARLY SEEN BY COMPARING ITS ACTION TO THOSE OF ONTARIO HYDRO

ONTARIO HYDRO	GOVERNMENT OF ONTARIO
Recognized the merits of the approach very early	Expressed disinterest from the start
Assigned a high powered team to explore fully the alternatives	Assigned no staff to look at the alternatives
Made a "business decision" on receipt of the facts	Did not ask to see the facts before restating a preconceived belief
Re-analyzed the facts and rethought the decision before final commitment	Concerned itself only with ensuring that Hydro had a defence for rejecting the alternative

LOOKING BACK AT 1975 ONE CAN MAKE A CASE FOR HYDRO'S DECISION, AND STILL
FAULT THE GOVERNMENT'S BLIND VIEW

POSSIBLE REASONS FOR HYDRO REJECTION	POSSIBLE REASONS FOR GOVERNMENT ACCEPTANCE
Just adding the chemical business to its concerns	Could have purchased through the Ontario Energy Corporation
Facing an awesome capital program Beginning to be involved in continuous public scrutiny	May have given Ontario an important, changing position in dealing with Federal Government
Could never be sure of continuous government backing through what could be a very tough negotiation	May have provided a substantial economic advantage to Ontario electricity consumers

III. The Alternatives
 2. Purchase

HOWEVER, LOOKING AT THE PURCHASE OPTION TODAY, ALTHOUGH WE CAN APPRECIATE THE EMOTIONAL APPEAL OF OWNING DENISON'S URANIUM MINE, IT IS HARD TO SUBSTANTIATE ANY HARD BENEFIT

SUPPOSED BENEFIT	REALITY
Ensure public receives profits from Ontario resources	Purchase will require the public to prepay the profits to current owners - no net economic benefit unless a bargain is struck
Ensure full public control of the uranium mine	Contract already ties up the full available production capability of mine for next 34 years
Ensure mine is operated with full regard for safety of miners and the environment	All safety, health and environment concerns can be handled by legislation
Ensure mine is operated to Hydro's benefit	Adds a further "sunk cost" to be amortized if the quantities have to be curtailed

III. The Alternatives
 2. Purchase

NEVERTHELESS, THE CURIOUS THING ABOUT THE PURCHASE ALTERNATIVE IS
 THAT THE BASIC ECONOMICS HAVE NOT CHANGED FROM 1975

	Summer 1975	December 1976	February 1978
At world price	At contract price terms	At contract price terms	
Value of Uranium Assets	\$681 million	\$672 million	\$638 million
Highest market price of year	\$65.00	\$67.50	\$59.87
Price range	\$35.75-\$55.00	\$55.00-\$67.50	\$51.12-\$59.87
Market value at high	\$297 million	\$308 million	\$273 million
DIFFERENCE	\$384 million	\$364 million	\$365 million

IN OUR VIEW THE PURCHASE OPTION MAKES MORE SENSE AFTER THE CONTRACTS ARE APPROVED THAN BEFORE, FOR SEVERAL REASONS:

1. The assets have a higher value at world price than at contract price

World Price Value	\$686 million
Contract Price Value	<u>\$638 million</u>
ADDED VALUE	\$ 48 million

2. Unless 100% of shares are purchased - and this is only feasible on expropriation - the mining company would have to sell to Hydro at a 'fair market value' (that may be world price)
3. If contracts are not approved, the negotiation with Denison's owners will have to be pursued at great haste in order to assure supply in the mid eighties
4. And a forced purchase of Denison may foreclose the equally interesting alternative of purchasing Rio Algom's uranium assets
§ Total reserves are larger (350 million pounds to 250 million pounds)
§ Denison's reserves are tied up by the contracts, while Rio Algom's are still available
§ Relations with Rio Algom owners may be less strained than with Denison's major owner

- III. The Alternatives
 - 2. Purchase

SO THAT OVERALL WE CONCLUDE THAT

- 1. The Government of Ontario failed, in 1973 to 1975, to appreciate the possible public policy attractions of purchasing a major producer and apparently never took this option seriously
- 2. Hydro's decision may well have been correct within Hydro's narrow perspective but may have been wrong on broader grounds
- 3. Unless the purchase is made at a substantial discount from the economic value, it is hard to see any hard net public benefit from owning Denison
- 4. But in any case, approving the contracts only strengthens any further Government action to assume ownership of Ontario's uranium assets

III. The Alternatives
3. Domestic Protection

THIS LEADS US TO THE FINAL APPROACH FOR ENSURING THE PUBLIC RECEIVES APPROPRIATE BENEFITS FROM ONTARIO'S URANIUM RESOURCES - A DOMESTIC USER PROTECTION SYSTEM

IN THIS SECTION WE WILL OUTLINE:

1. The weaknesses in the current system
2. The actions and inactions of the Government of Canada and Ontario
3. The effect of approving the contracts

FIRST LET'S LOOK AT THE CURRENT PROTECTION FOR THE ONTARIO PUBLIC

ONTARIO IS IN THE CURIOUS POSITION OF BEING:

- § The country's largest user of uranium
- § The Province with the largest known reserves

BUT WITH ABSOLUTELY NO CONTROL OF ITS URANIUM RESOURCES
ONTARIO MUST RELY ON THE FEDERAL GOVERNMENT UNDER WHOSE
POLICY

- § It would be possible for Denison to sell the entire Hydro contract material to a foreign buyer
- § Reserves are protected at, theoretically, up to twice the world price and, in practice, up to \$60 per pound
- § All of Ontario's resources can now be sold away, leaving Ontario Hydro to buy through the Saskatchewan royalty scheme
- § Can only protect domestic users by interrupting previously approved long term relationships with our trading partners

III. The Alternatives
 3. Domestic Protection

NEITHER GOVERNMENT CAN BE VERY PROUD OF ITS ACTIONS

BOTH GOVERNMENTS RECOGNIZED THE NEED FOR PROTECTION, BUT:

GOVERNMENT OF CANADA	GOVERNMENT OF ONTARIO
<p>Issued guidelines that offer least problem to producers on some vague hope of cooperation</p> <p>Have admitted to inadequacies in domestic supply protection</p> <p>Have repeatedly stated they see no need for protecting domestic users on price</p> <p>Seems to prefer to use private threats to fill the clear gaps in their policy</p>	<p>Has never publicly and openly put pressure on EM&R to change its policies</p> <p>Has tied its price protection arguments to its total energy two-price policy, even though that argument has been going nowhere for years</p>

III. The Alternatives
3. Domestic Protection

POSSIBLY THE STRONGEST ARGUMENT FOR NOT APPROVING THE CONTRACTS IS THAT
NON-APPROVAL APPLIES MORE PRESSURE TO THE FEDERAL GOVERNMENT TO CHANGE
ITS POLICIES

- § Approval of the contracts may be seen as public approval of their terms
- § The quantities involved take a good deal of pressure of all producers in getting export permits
- § A unanimous rejection of the contracts by all parties in the Committee, endorsed by all parties in the Legislature, may be a powerful force for the Government of Canada to reckon with

1. THE GOVERNMENT OF CANADA MAY STILL NOT INTERVENE BUT WE ARE NOT CONVINCED BY THESE ARGUMENTS.
 - § "Failure of negotiation" would be hard to establish convincingly because the Federal Government knows that Ontario Hydro and the suppliers reached an agreement and two Ministers of Energy have approved the contracts
 - § There is no indication whatsoever that the Federal Government is moving toward a change in its pricing policy
 - § The current Federal Government uranium pricing policy is consistent with its overall energy strategy
2. AND IF THEY DO, THE PRICING TERMS MAY BE NO BETTER
 - § Federal Government's Senior Uranium Advisor has stated publicly that in his view the contracts are excellent
 - § Federal Government knows that respected consultants have said repeatedly that these are fair contracts
3. FURTHER, IT WOULD MEAN FINALLY SURRENDERING TOTAL CONTROL TO THE FEDERAL GOVERNMENT

- III. The Alternatives
 - 3. Domestic Protection

SO THAT THE RISK OF APPLYING THAT ADDED PRESSURE JUST DOES NOT
SEEM WORTH IT

- 1. The Federal Government may simply not respond
- 2. If they respond, the pricing may be no better
- 3. And if the pricing is better, the producers may not be
willing to sell

EVEN IF THEY RESPOND AND THE PRICE IS BETTER, IF ANY OF THIS
ACTIVITY TAKES VERY MUCH TIME, ONTARIO MAY BE SHORT OF URANIUM
IN THE EIGHTIES

- III. The Alternatives
 - 3. Domestic Protection

IN OUR VIEW, THE BEST APPROACH IS TO APPROVE THE CONTRACTS

- 1. Gives the Province "de facto" control of 200 million pounds of uranium immediately
- 2. Then leaves the Province open, and presumably with the full support of the Legislature, to go after the Government of Canada
 - § We would favour an approach of putting economic control of Ontario uranium in Ontario's hands
- 3. And, if price protection is achieved, it will override the provisions of the contract

- I It makes sense to tie up substantial quantities of Elliot Lake uranium for Ontario's needs
- II The contracts themselves are a reasonable balance of interest between Ontario Hydro and the producers
- III Approving the contracts does not foreclose any further steps to ensure the Ontario public receives appropriate benefits from its uranium resources
- IV There are substantial and unnecessary risks to the Ontario public in not approving the contracts by February 28

IV. February 28

IN OUR VIEW, ONTARIO HYDRO - AND THE ONTARIO PUBLIC - WOULD BE PUT INTO AN UNNECESSARILY DIFFICULT AND RISKY POSITION IF THE CONTRACT IS NOT APPROVED BY FEBRUARY 28

1. Denison will withdraw their offer
2. Hydro will have great trouble re-negotiating as favourable a contract with Denison or any other supplier unless conditions change
3. We cannot identify any significant source of uranium that could be made available to Ontario Hydro at a discount from world price

IT IS OUR OPINION THAT DENISON WILL WITHDRAW ITS OFFER

1. Denison has publicly committed itself to withdrawing on February 28
 - § President made an unequivocal statement to the Committee
 - § Chairman declared his intentions to his shareholders
2. Denison has every right to withdraw
 - § Has given plenty of notice and has kept its offer open for a long time
3. Provincial Government power to intervene in contracts is negated by Federal jurisdiction over uranium
 - § The well defined Elliot Lake ore body is very attractive to most utilities
 - § Nothing in the Federal guidelines to prevent contracts for Denison's maximum production in next 10 years

IF HYDRO HAS TO GO BACK TO DENISON AFTER FEBRUARY 28 WITHOUT ANY NEW
LEVERAGE NEGOTIATION WILL BE VERY DIFFICULT

1. It seems inconceivable that Hydro would ever be able to conclude such a satisfactory deal again

§ All Hydro advantages have been exposed

§ All Hydro bargaining positions have been made public

2. Any delay will exacerbate the projected shortfall in the eighties

§ The expansion project is already behind and it may be impossible or expensive to catch up

3. If Denison remains an unwilling seller, it is not clear where Hydro will be able to go

§ Saskatchewan has still not approved any development and their royalty scheme contemplates that all sales will be at world price

§ Rio Algom had to withdraw an offer of supply from another mine because it could not be brought into production fast enough

WHY WOULD THE COMMITTEE WANT TO GO BEYOND FEBRUARY 28

§ The Committee was asked to "confirm that entering into the above agreements is in the public interest of Ontario"

§ It is our view that the Committee has heard sufficient information to make up its mind

- The details of the contract have been extensively explored
- There is enough information on the alternatives to decide if any of them is preferable and practical
- Further investigation of the various contacts and pressures that brought the parties to an agreement will not change the contract conditions or their alternatives

§ If the Committee wants to go into any other aspect of the matter, it has a public responsibility to make up its mind clearly and decisively on the contracts and/or alternative approaches to acquiring the uranium which is clearly required before going on to other matters

AND AS A PRACTICAL MATTER, IT DOES NOT APPEAR FEASIBLE FOR THIS SELECT COMMITTEE TO MEET REGULARLY WHEN THE HOUSE IS IN SESSION

APPENDIX F

MOTION AND SUPPORTING ARGUMENTS OF THE COMMITTEE MEMBERS REPRESENTING THE PROGRESSIVE CONSERVATIVE PARTY

MOTION

Mr. Williams (Oriole) moves that the Select Committee indicate that the proposed contracts are in the public interest of Ontario and that they be approved by the issuance of Orders-in-Council.

SUPPORTING ARGUMENTS

We believe that the Ontario Hydro contracts with Denison Mines Limited and Preston Mines Limited are in the public interest of Ontario, and that Orders-in-Council should be approved before February 28, 1978.

Our conclusions are based on the overwhelming evidence put before this Select Committee by the Ministry of Energy and Ontario Hydro and their consultants, by the Committee's own consultants, and supported by the Committee Staff's findings, presented to us on February 20, 1978.

Indeed, the Committee staff are to be commended for their excellent summary and analysis of the complex issues raised during the course of the hearings. In our view, the staff have reached a responsible conclusion, based on the facts, that it is in the overall best interest to proceed with these important contracts.

They gave four reasons, with which we agree:

1. It makes sense to tie up substantial quantities of Elliot Lake uranium for Ontario's needs;
2. The contracts themselves are a reasonable balance of interest between Ontario Hydro and the producers;
3. Approving the contracts does not foreclose any further steps to ensure the Ontario public receives appropriate benefits from its uranium resources;
4. There are substantial and unnecessary risks to the Ontario public in not approving the contracts by February 28, 1978.

We would like to make our own comments on each of these areas in support of our conclusions.

1. *Commitment of Elliot Lake Uranium*

Ontario Hydro's fuel requirements for existing and committed nuclear reactors have been shown to be at least 156 million pounds, and its contractual obligation under the Federal Government's policy guidelines was estimated at 76 million pounds. These figures were confirmed by Ontario Hydro staff and independent consultants.

In addition to these total volumes, it is important to look at the annual deliveries needed by Ontario Hydro. As members of the Committee are aware, production under these two contracts does not meet Hydro's annual needs until 1994.

Beyond that date, as the staff correctly point out, there are adequate and reasonable provisions in the contracts to allow Hydro flexibility in selling surplus amounts, curtailing deliveries or terminating the Preston contract. The cost of cancellation of Preston and curtailment of Denison to eliminate the current surplus beyond 1994 has been estimated to be \$1.33 per pound, a very small insurance to pay for the rights to the additional volumes in the long term.

It is also worth pointing out that the Federal guidelines require each new reactor to have a supply of fuel under contract for its initial 15 years of operation; i.e., up to the year 2002 for Darlington's four reactors. In other words Ontario Hydro must contract for the next 24 years in order to comply with the Federal Government's policy.

We would like, also, to address some Committee members' criticisms of the long-term nature of the contracts negotiated by Hydro. With very few exceptions, experts who appeared before us strongly endorsed long-term commitments. In the view of the consultants, these contracts would be the envy of most utilities elsewhere and one reason for this is the security of supply which they provide for Hydro over a long period of time; Dr. David S. Robertson, one of Canada's foremost mining consultants, gave clear testimony that few ore bodies are available in North America to sustain such lengthy production commitments.

Finally, we fully endorse the views of the staff on the substantial income, employment, tax and security advantages to be derived from "buying in Ontario". In particular, we agree that these contracts give the Government of Ontario "*de facto*" control of two of Ontario's major uranium mines without, we would add, the risks and liabilities of ownership.

2. *Balance Between Interest of Ontario Hydro and Producers*

We are satisfied that the contracts negotiated by Ontario Hydro provide a fair and reasonable balance between the interest of Ontario Hydro and the respective producing companies.

There can be no doubt, from the evidence given by independent consultants familiar with the experience of other utilities in securing uranium supplies, that these two contracts are considerably more favourable to Ontario Hydro than any other contracts, with other electrical utilities, known to the consultants.

There was the evidence of Dr. Robertson, who gave very persuasive arguments in support of the contracts. His powerful and authoritative testimony was of considerable help to the Committee.

The opinions of Dr. Robertson were further reinforced by the independent experts retained by the Ministry of Energy.

For example, the S. M. Stoller Corporation found both contracts to be "favourable to Hydro while also being equitable to the producers". They also stated that these contracts provide Hydro with a secure supply of fuel, adequate flexibility to adjust to reasonably anticipated changes, expansion of requisite production capacity, and advantageous pricing terms.

Deloitte, Haskins and Sells also viewed the contracts as "good business practice, and in the best interests of Hydro and the consumers". In their opinion, "the contracts with Denison and Preston represent a reasonable approach to contracting for uranium suppliers on a long-term basis".

We believe the Select Committee's staff were justified in employing their own consultants whose evidence, on the whole, did not differ from that of the other experts. For example, Donovan, Hamester & Rattien, Inc. concluded that "all factors considered, we believe all concerned can conclude that Hydro has negotiated a good contract from the standpoint of assuring its supply of uranium; from the standpoint of complying with existing Federal guidelines; and from the standpoint of being able to assure electricity supply to its customers at the minimum price".

Another Committee consultant, Dr. Julian Steyn of International Energy Associates, presented his views on the overall uranium situation and commented that utilities in the United States and elsewhere would be "very interested in considering the contracts".

With respect to the contract terms themselves, we would like to comment on four aspects which have been raised during the Committee's discussions.

First, the advance payments to be made by Hydro for capital expansion purposes. The Staff have advised us that this practice is not unusual in the industry today, and we believe Hydro has been able to negotiate sound repayment and security provisions with the companies to protect their advances.

Ontario Hydro stated that these advance payments also allowed them to obtain significant discounts from world prices and, at the same time, to impose stringent production obligations on the producers to support the financial securities given to Hydro in consideration of their advances. Also, it should be noted that Hydro's cost of borrowing would be lower than that of the producers, and interest on any producers' advances would have formed part of the Base Price. The net effect on Hydro's customers, given the pricing terms of the contract, could be a saving compared to having the producers advance the necessary funds.

Second, in the case of Denison, while a portion of their pre-1994 production from the expansion will be available to satisfy export commitments, all of the expanded facilities and virtually all of the existing facilities will be available to supply Ontario Hydro beyond 1994. According to the evidence given by the legal firm of McMillan Binch, this arrangement greatly benefits Hydro over the period of the contract.

Third, we are satisfied from the evidence given that the Negotiated Price in the contracts is not an artificial price. The expert opinion presented to the

Committee was overwhelmingly that the so-called "cartel" that existed between 1972 and 1975 did not have any significant effect on the recent increases in uranium prices. As well, the evidence shows that provisions in both contracts give Ontario Hydro adequate protection against any artificial influence on prices in the future.

Finally, the contracts contain many forms of incentive to maintain efficient production and minimize construction and operating costs, such as:

- Representation by Hydro on monitoring committees,
- Delivery commitments in default of which the security provisions can be exercised by Hydro,
- Auditing of all costs by Ontario Hydro staff, and
- Incentive in the pricing terms for the producer to keep costs low.

In summary, therefore, we consider the contracts to be fair and reasonable from the perspective of both Ontario Hydro and its two suppliers.

3. Alternative Approaches to Securing Benefits for the Ontario Public

The Committee staff have properly drawn attention to three alternative approaches to obtaining the required uranium fuel and their implications for the electricity consumer and public at large. However, we cannot accept all the arguments put forward by the staff based on our understanding of the testimony given to the Committee.

We would like, therefore, to express our own views on the three approaches and the conclusions we have reached on each.

3.1 Taxation of "Excessive Profits"

We would dispute the statement made in the staff report (page 22) which argues that "The Government of Ontario's case for a special excess profit tax was unconvincing". In fact, the Government spokesmen did not put forward a case for a special tax but simply drew the Committee's attention to the right of any Government to levy taxes.

The Minister of Energy has clearly recommended the contracts for approval in the knowledge that the Government of the day would have the power to tax, if circumstances warranted such action. In so doing, he stated that he was not prepared to speculate on whether or not excess profits would accrue to the uranium producers at some future date, and whether or not changes would be needed in the current system of provincial taxation—both mining and income taxes. Inasmuch as Ontario Hydro does not begin to purchase uranium from Denison in any significant quantity until 1982 and from Preston until 1984, we think that is a reasonable position.

The suggestion is also made in the staff report that there was an unwillingness to deal with the taxation issue by the Ministry of Energy, until pressed by Committee members. To the extent that the Minister stated he was unwilling to deal with nebulous and hypothetical situations, this is true.

It was, undoubtedly, the repeated allegations by Opposition members of the Committee, both within the Committee hearings and outside, that "bonanza" profits would accrue to the producers which forced the new Minister, the Hon. Reuben Baetz, to remind the Committee of the Government's general taxing power. He also referred to the 1974 change in the Ontario mining tax, which demonstrated the kind of tax regime which the Government had introduced in response to the circumstances of the day.

3.2 *The Aquisition Alternative*

There is ample evidence on the record of this Committee's hearings that the alternative of acquiring ownership of an operating uranium company was considered in detail by Ontario Hydro and rejected by it on sound business grounds in favour of the contractual route.

The responsibility for selecting the best approach to securing fuel supplies pertains, clearly, to the Ontario Hydro Board under The Power Corporation Act. Hydro's Chairman, Mr. Robert Taylor, expressed this position in no uncertain terms during his appearance before the Committee.

The Government provided advice and support to Ontario Hydro during its consideration of alternatives and cannot be criticized for taking a "casual approach" to the acquisition alternative. Certainly, the Minister of Energy, in 1974, expressed his preference for the contractual route, but clearly advised Ontario Hydro that it had the obligation to review other options. He further stated that he would take any recommendation to acquire a uranium mine to Cabinet for its consideration. No such recommendation was ever made by the Ontario Hydro Board.

We believe that the Minister took the correct course of action, considering the recommendations of the Hydro Board on completion of negotiations with Denison Mines. The Minister noted that Hydro had thoroughly examined the acquisition of Denison, that the reasons given for rejecting the acquisition of Denison were sound (a view subsequently confirmed, at the Ministry's request, by its independent consultants), and that the proposed contractual route was consistent with broad Government policy.

In those circumstances, we do not find it unreasonable for the Minister to concentrate his efforts on reviewing the adequacy of the proposed contract.

We believe, also, that the realities of the situation, set out on page 28 of the staff report, provide ample reasons to support the rejection of the acquisition route.

Before concluding our remarks on the acquisition alternative, we must state that we are not prepared to accept at face value the "basic economics", shown in the table on page 29 of the staff report. We are not convinced that acquiring a uranium producer would reduce the cost of uranium that Hydro needs.

During the Committee's examination of "Project Wellesley" and the Hydro witnesses, it became apparent that the discount rate used was critical, and that a much higher rate than the 10 to 12 per cent used in the table would be more appropriate. A rate of 15 per cent was suggested, and this would

obviously lower than value. Also, the cost of acquisition would be much higher than the high market value by at least 30 per cent and probably up to 100 per cent.

With those qualifications, the "economic benefits" of acquisition are more apparent than real—and acquisition would carry with it significant risks of ownership.

3.3 Ontario and Federal Government Policy

We recognize that Ontario Hydro was conducting its negotiations in a climate that gave it little, if any, bargaining power in relation to its prospective suppliers. As the Minister of Energy noted in his testimony, and Committee members generally agreed, the Federal Government's uranium policy guidelines imposed a stronger and more immediate obligation on Hydro to buy than on either Denison or Preston to sell.

We cannot agree, however, that the criticism in the staff report that "neither Government can be very proud of its actions" is justified. The Federal Government holds full jurisdictional responsibility for the uranium industry, and has acted in the past to provide some measure of protection for both the industry, and for Canadian users. It is also providing some stimulus to further exploration efforts within Canada.

The evidence put before this Committee does show that the Government of Ontario made repeated efforts to influence the Federal Government to change the rules of the game, particularly with respect to a more favourable pricing policy, when Hydro's negotiations were not going well. The fact that the Federal Government was intransigent should not reflect adversely on the Government of Ontario, nor detract from its persistent efforts to change the Federal Government's energy pricing policy.

We believe the Government of Ontario can be proud of its efforts to mobilize this Province and this Legislature against the Federal Government's energy pricing policies over the past few years. The Government received no support from either Opposition party for a united front against Ottawa during this period when it was needed. It is all very well for the Opposition to be critical in retrospect.

In our view, the staff has come to a realistic and reasonable conclusion that approval of the contracts is the best approach to obtain some measure of provincial control over the Elliot Lake resources, and that any subsequent change in the Federal Government's pricing policies could be made to override the provisions of the contract.

4. The February 28th Deadline

We strongly endorse the view of the staff that "Ontario Hydro—and the Ontario public—would be put into an unnecessarily difficult and risky position, if the contract is not approved by February 28, 1978". It makes no sense to risk losing the contract with Denison which according to the experts who examined it in detail, is a favourable one for Ontario Hydro.

The Committee was also advised that there is no other significant source of uranium that could be made available to Hydro in the time required and

on more favourable pricing and other terms. Certainly, there can be no doubt that reliance on the Federal Government to change its policies is not an alternative. As recently as February 16, 1978, the Federal Government confirmed that it has no intention of changing its policies, and that it considers the contracts negotiated between Ontario Hydro and the producers to be an appropriate balance of interests.

Since the Committee has heard overwhelming evidence on the desirability of entering into these contracts, the lack of any feasible alternative and the absence of any imminent change in the rules of the game, we strongly recommend that the Government approve the contracts before February 28, 1978.

GEORGE ASHE, M.P.P.

J. ALBERT BELANGER, M.P.P.

TERRY JONES, M.P.P.

NICK LELUK, M.P.P.

RON MCNEIL, M.P.P.

JOHN WILLIAMS, M.P.P.

APPENDIX G

**MOTION AND SUPPORTING ARGUMENTS
OF THE COMMITTEE MEMBERS REPRESENTING
THE LIBERAL PARTY**

MOTION

Mr. Reed (Halton-Burlington) moves that the Select Committee advise the Premier, in reply to his request of December 19, 1977, that the Committee regrets it cannot confirm that the contracts between Ontario Hydro and Denison Mines Limited, and between Hydro and Preston Mines Limited, are in the public interest of Ontario, for the following reasons:

SUPPORTING ARGUMENTS

1. The Committee members representing the Liberal Party do not agree with the Premier's apparent assumption, as reflected in the first paragraph of his letter of December 19, 1977, that the contracts meet Hydro's "Requirements and . . . obligations under Federal Government policy guidelines". The Federal policy requires that Hydro have firm contracts for 15 year fuel supplies for each of its reactors now operating or committed 10 years into the future. Federal Government assessments received by the Committee indicate that for the Pickering, Bruce, Douglas Point and Darlington reactors, this requirement is approximately 74,000,000 pounds of uranium oxide. Hydro currently has 13,000,000 pounds under contract. The Denison and Preston contracts would deliver, by the end of 1992, only 37,700,000 pounds, leaving Hydro 23,300,000 pounds short of the Federal requirement. The Liberal members cannot agree that this situation is in the public interest of Ontario, nor can we understand why the Government and Hydro allowed it to develop.

2. Over the longer-term, the contracts provide for deliveries of uranium which are greatly in excess of Hydro's current long-range nuclear commitment. The Committee has been informed that the intention is to secure life-time supply (30 years at 80 per cent load factor) for each of the 21 reactors now operating or committed in the next 10 years. On this basis, Hydro will need 153,300,000 pounds of uranium. These contracts, plus the 13,000,000 pounds already in hand, could result in an excess supply of 57,500,000 pounds and an extra expenditure of \$1,500,000,000 in 1976 dollars. The Liberal Members are not impressed by the response that Hydro would have recourse to the curtailment provisions of the contracts in the event of over-supply. Rather it sees an intention to secure supply for reactors not yet committed or approved by public policy. The Liberal members do not deny that more reactors may be needed, but such a determination should await the views of the Porter Commission and of this Committee, which has been directed by the Legislature to report, *inter alia*, on Hydro's nuclear role and requirements. In this connection, the Liberal Members note Hydro's announcement of a new long-range energy forecast which is significantly lower than previous forecasts and which could, for example, hold off the introduction of power from the Bruce "B" and Darlington stations by some two years. The Liberal Members make no judgment at this time that such would be a desirable course; we simply state that under the circumstances, and having regard to the pricing terms of the contracts noted below, we are unable to confirm that the excessive supply

described above is in the public interest. Indeed, we are quite unable to understand the Premier's apparent willingness to commit Hydro to such deliveries at such prices.

3. The contracts contain pricing formulae in which so-called "world prices" and "world market conditions" for uranium will have a heavy influence on the actual price to be paid by Hydro. The Liberal members reject such concepts without qualification. The so-called world market for uranium is not a free market but rather the product of national policies, controlled prices and producer cartels. Applied to these contracts, such concepts would likely mean an increase in the price to Hydro, in today's dollars of at least \$7.50 a pound and an increase in profit to the producers of at least \$1,485,000,000. The Liberal members note that if the "world price" factor were removed from the pricing formulae, the profit to Denison would still be, in today's dollars, \$756,000,000 on sales of \$3,780,000,000, and in the case of Preston, \$432,000,000 on sales of \$2,436,000,000.

It is intolerable that the electrical power consumers of Ontario should be subjected to considerations of "world" prices and profits on uranium mined in Ontario or, for that matter, in Canada. We have not yet reached the stage, surely, where we can say, What's a Billion? The Liberal members assert there can be only one pricing principle for Ontario consumption of Ontario uranium, namely actual costs of production plus a fair and reasonable return on invested capital. We are not prepared to say, having regard to the value of the capital monies Hydro would have to advance interest-free under these contracts, that such a return is not exceeded even under the "Base Price" provisions of the contracts. Rather we express the hope and conviction that fair contracts could be devised on the principles here stated, with appropriate incentives to ensure efficient production and appropriate safeguards against excessive profits.

4. The Denison contract would require Hydro to advance the capital monies necessary to double Denison's production capacity at Elliot Lake, but for some 15 years thereafter Hydro would not receive a pro rata share of Denison's production. The bulk of the uranium produced during this period will be sold in Japan. Ironically, it is during this period that Hydro has the shortfall in supply noted above and will have to contract for short-term deliveries from other suppliers to keep its reactors going and to meet the requirements of Federal Government policy. Moreover, Denison's ore grade will decline significantly during this period, with the result that the bulk of Denison's deliveries to Hydro during the latter half of the contract will come from lower-grade, more expensive ore. The Liberal members regret that we cannot confirm that these features of the Denison contract are in the interests of the electrical power consumers of Ontario.

5. Both contracts, and the Denison in particular, are the inevitable result of negotiations conducted within certain parameters of public policy laid down by the Government of Ontario and by the Federal Government. While the Committee, through no fault of its own, has had a regrettably short time to examine this aspect of the matter, we are satisfied it has learned enough to state with conviction that those policies, on both the Federal and Provincial level, have not served Ontario well. In particular, it is amply clear from the evidence received that the present Administration of Ontario failed, for what

can only be viewed as doctrinaire political reasons, to support Hydro in two major respects:

- It emphatically discouraged, if it did not reject, Hydro's laudable examination of the acquisition alternative, whereby Hydro or other Crown Agency could possibly have achieved ownership of Denison's uranium assets through market purchase of the company's common shares, at a cost well below that to be incurred by the contract route;
- It meekly and quietly protested, if it did not tacitly accept, the inadequacies of Federal policy concerning the production and pricing of Ontario uranium for Ontario use.

The Liberal members therefore are of the opinion that we cannot endorse this record of maladministration or the uranium supply contracts which have been imposed upon Hydro as a result. To do so would be irresponsible and an abdication of the Committee's parliamentary function.

Noting the Premier's request, in his letter of December 19, 1977, that the Committee return its opinion before the end of February, 1978, the Liberal members wish to state that we are prepared, should the Premier request, to give extensive and detailed reasons for the views expressed above.

In the meantime, the Liberal members believes only two matters require further comment at this time.

The first concerns the circumstances under which the Premier asked the Committee to express its opinion on the contracts in question. The Committee discovered on the first day of its hearings that the Denison contract was subject to Order-in-Council approval, which order must issue by February 28 next. The Committee did not discover, until its hearings on this issue had been virtually concluded, that this date was an eleventh-hour addition in order to extend a Denison ultimatum, placed on November 12, 1977, that if the Order-in-Council did not issue by December 15, 1977, Denison would consider that contract null and void. As a price for such extension, Denison demanded, and Hydro perforce agreed, that Hydro pay interest charges on capital monies expended by Denison prior to February 28, 1978, to expand its production capacity at Elliot Lake. Such interest charges are not provided for in the contract and the Committee is informed they entail an additional cost to Hydro of \$820,000.

Moreover, the Committee only discovered at the end of its hearings on these contracts that this extension of time and additional cost flowed from a decision by the Premier, apparently some time in November, that the Denison contract should be considered by this Committee before the Order-in-Council issues.

The Liberal members wish to state that if we had been apprised of these facts, it is very questionable whether, without specific order of the legislature, we would have acceded to the Premier's request of December 19, 1977, to favour him with the opinion herein expressed. The Liberal members are under no illusions that the contracts we have been asked to consider are, in the final

analysis, Government contracts in which Ontario Hydro has been but the bargaining agent. The Government must take the responsibility for them and the Government must govern. The Liberal members note that the Denison contract was signed and approved by Hydro as of September 12, 1977, but with no stipulation of time as to when the Order-in-Council had to issue. The Government had ample time to consider and decide the matter before this Committee was in a position to review it—indeed, before this Committee was even established by Order of the Legislature. Alternatively, the Government could have sought redress in the courts when faced with Denison's ultimatum of November 12. In any event, the Liberal members reject, as unnecessary and imprudent, the Premier's decision to bargain for an extension of time at the inordinate cost of \$820,000.

The second matter that required comment at this time is the misconception held by many that if the Denison contract is not approved by February 28, 1978, "the lights will go out" in Ontario a few years down the road.

As the Liberal members have already noted, the Denison contract would contribute little to Hydro's uranium needs in the short-term (15 years). To meet the shortfall Hydro faces for this period, supplies from other producers must be secured and they will be needed whether the Denison contract is approved or not.

Over the longer-term, it is clear from the evidence before the Committee that unless major new discoveries of uranium are made in Canada, there will not be enough proven reserves to permit exports for the period after 1995. Federal Government policy is committed to maintaining enough uranium in Canada for foreseeable domestic use, and while the Committee is critical of Federal policy concerning domestic price and production, we feel no government of Canada would dare go against the national interest concerning domestic supply. The Liberal members therefore makes two observations; first, that if no new deposits of uranium are found and exports have to be stopped, the producer demand that domestic utilities pay "world price" will disappear; secondly, that if major new deposits are found—and they will have to be major—then the current panic over tight supply, and its corollary of high prices and exorbitant profits, will also disappear.

RAY HAGGERTY, M.P.P.

VINCE KERRIO, M.P.P.

ROBERT NIXON, M.P.P.

JULIAN REED, M.P.P.

APPENDIX H

**MOTION AND SUPPORTING ARGUMENTS
OF THE COMMITTEE MEMBERS REPRESENTING
THE NEW DEMOCRATIC PARTY**

MOTION

Ms. Gigantes (Carleton East) moves that this Committee recommend no Orders-in-Council be signed on the Denison contract, that the government and Hydro look immediately to filling its near term uranium needs and that the government of Ontario prepares a proper negotiating position for the acquisition of the Denison uranium resources for our long-term needs.

SUPPORTING ARGUMENTS

The New Democratic members of the Committee have concluded that the proposed contracts with Denison Mines Ltd. and Preston Mines Ltd. are not in the public interest. The contracts were toughly negotiated and skillfully drafted, but they could not, and do not, compensate for the limitations placed upon them by the policy directives of the provincial and federal governments.

We support the basic objective of the contracts—to provide a supply of uranium at the cheapest possible price to fuel the \$14 billion investment in existing and committed nuclear generating stations—but we do not believe that the contracts assure this. Moreover, we feel there is a second, equally important, objective—that our uranium resources, which rightfully belong to the people of Ontario, should be used for the maximum contribution to the industrial development of the province by providing consumers with the lowest possible energy prices. In short, a continued fulfillment of the Ontario tradition of power at cost.

We are convinced that acquisition of the shares or assets of Denison Mines is the best and cheapest way to meet both these objectives.

The tragic fact is that the government of Ontario has consistently rejected the opportunity to acquire proven uranium ore bodies at Elliot Lake. At precisely the time when Denison Mines Ltd. was attempting to sell its Elliot Lake reserves in 1973, Task Force Hydro recommended that Ontario Hydro consider acquiring control of a uranium mine complex. On December 10, 1973, George Gathercole, chairman of Ontario Hydro, wrote to the Minister of Energy: "In our view we should proceed with the purchase of the uranium assets at Denison Mines which are understood to have the largest low-cost reserves available, as quickly as possible". Following that, on June 4, 1974, J. G. Matthew, Manager of Fuels and Supply Resources Development at Hydro wrote: "Acquisition of the Denison reserves is the key to Ontario Hydro's bargaining position now and in the future". Then, in 1975, after a thorough investigation, Project Wellesley reported that "there is a significant absolute dollar saving in acquiring the company" and "it is recommended that Ontario Hydro enter into negotiations to obtain a majority interest in Denison Mines Ltd. through the purchase of shares". In addition to the more than \$300 million in advance payments to Denison and Preston under the proposed contracts, Project Wellesley noted that profits from the existing Japanese contracts would offset the acquisition costs of Denison Mines Ltd.

Finally, the staff of the Select Committee has demonstrated in February 1978, that the basic economics have not changed since Project Wellesley was completed. What was economically advantageous in 1975 remains economically advantageous in 1978. The case for acquiring Denison Mines is as compelling today as it was five years ago.

Admittedly, the uranium market situation has changed, but we have significant powers within the provincial jurisdiction to strengthen our bargaining position in negotiations with Denison, if there is the will to use them:

1. We have the power under Section 113 of the Ontario Mining Act to refuse to grant export permits for unrefined uranium.
2. We have the power to raise the annual acreage fee for mining leases on Crown lands to a level that would wipe out Denison's windfall profits. Denison presently pays the absurdly low fee of \$5,173.99 per year for the right to mine 2,874 acres of provincial land, and additional \$87.74 per year for surface rights to 87.42 acres and an annual tax of \$1,790.52 on 895.26 acres that the company owns outright. That adds up to only \$7,052.25.
3. We have the power to raise provincial mining taxes to a level that would wipe out windfall profits.
4. Finally, we have the power to terminate Denison's mining leases, most of which come up for renewal in 1986.

With these powers as levers, we would move to acquire ownership of Denison Mines Ltd. We reject the proposal that the Federal government should have an exclusive role in the pricing and disposition of uranium. We firmly believe that the Province of Ontario should exercise its legitimate control over this crucial natural resource—for which Ontario is the major domestic consumer.

There is no immediate urgency to sign the Denison contract. The first deliveries under the Denison contract will not take place until 1980. By 1984 there will be only 3.7 million pounds delivered and by 1990 only 15.9 million pounds delivered. Therefore, the Denison contracts do not meet our short-term needs. In fact, there is an immediate short-fall of 10 million pounds not covered by the contracts which Hydro must fill through borrowing from the federal uranium stockpile or spot purchases on the international market, in either case at world price. Because this is the situation even under the contracts, there is time to work out the details of acquisition.

The government has resisted the purchase of Denison's uranium assets because such a move is in conflict with its political philosophy. That was asserted as far back as 1973; and it was reiterated as recently as January 11, 1978 by the Minister of Energy.

The acquisition of Denison Mines Ltd. makes good business sense. In testimony before the committee, both Sinclair Stevens, Conservative M.P. and L. H. Roddis, Jr., former president of Consolidated Edison, amongst others,

confirmed that the acquisition of fuel resources is a highly desirable means for a utility to secure its long-term supplies.

Our conclusion is that the acquisition of Denison's uranium resources would provide Ontario Hydro with a long-term supply of uranium at prices substantially below those offered under the proposed uranium contracts. We feel that given the desirability of such an acquisition, it would be a denial of the public interest for the Ontario government to proceed in any other way. Anything else would be bad business.

JIM FOULDS, M.P.P.

EVELYN GIGANTES, M.P.P.

DONALD MACDONALD, M.P.P.

GEORGE SAMIS, M.P.P.

APPENDIX I

MEMBERS

George Ashe, M.P.P.
 J. Albert Belanger, M.P.P.
 Jim Foulds, M.P.P.
 Evelyn Gigantes, M.P.P.
 Ray Haggerty, M.P.P.
 Terry Jones, M.P.P.
 Vince Kerrio, M.P.P.
 Nicholas G. Leluk, M.P.P.
 Ronald K. McNeil, M.P.P.
 Robert F. Nixon, M.P.P.
 Julian Reed, M.P.P.
 George R. Samis, M.P.P.
 John Williams, M.P.P.



LEGISLATIVE ASSEMBLY

CHAIRMAN

Donald C. MacDonald, M.P.P.

COUNSEL

Alan M. Schwartz

CONSULTANT

James Fisher

CLERK

Andrew Richardson

February 22, 1978

The Honourable W. G. Davis, Q.C.,
 Room 281,
 Legislative Building,
 Queen's Park,
 TORONTO, Ontario.

Dear Premier:

In response to the request contained in your letter of December 19th, 1977 the Select Committee on Ontario Hydro Affairs held numerous meetings in order to confirm that approving the Ontario Hydro uranium contracts is in the best public interest. The Committee approached its task with vigour and, in the period available, conducted a thorough examination of the issues. At the conclusion of the hearings, Committee Counsel, Alan Schwartz and Consultant, James Fisher, presented their summary and synthesis of the evidence presented to the Committee along with their conclusion that the issuing of orders in council approving the contracts is in the best public interests.

Following the staff presentation, the Committee however, did not pass any of the several Motions placed before it. I should note that it was evident from both the voting patterns and discussions that seven members of the Committee felt that they were unable to confirm that approving the contracts is in the best public interest while six members of the Committee felt that they could so confirm that approval is in the best public interest.

The reasons for the various views expressed by the Committee members will be contained in a brief report which will be tabled in the Legislature at the earliest possible moment.

Yours very truly,

Donald C. MacDonald



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